Management Report and Financial Statements 2018

KfW IPEX-Bank

2018

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1] by sector department	2018 EUR in billions
Maritime Industries	14.3
Power, Renewables and Water	14.2
Basic Industries	9.7
Aviation, Mobility & Transport[2]	9.7
Industries and Services	7.7
Infrastructure[3]	7.2
Financial Institutions, Trade and Commodity Finance	3.7
Total	**66.6**

[1] For which KfW IPEX-Bank GmbH is responsible
[2] In 2018 'Aviation and Rail' was renamed 'Aviation, Mobility & Transport'
[3] In 2018 'Transport and Social Infrastructure (PPP)' was renamed 'Infrastructure'

KfW IPEX-Bank GmbH key figures

	2018	2017
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	27.3	25.4
Volume of lending	35.1	30.7
Contingent liabilities	1.6	1.6
Irrevocable loan commitments	8.4	6.3
Assets held in trust	0.4	0.2
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	37.3	33.3
Equity	3.9	3.9
Equity ratio (%)	14.4	15.2
Results	**EUR in millions**	**EUR in millions**
Operating income before risk provisions/valuations	258	147
Risk provisions and valuations	–5	–78
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	238	113
Result of the Export and Project Finance business sector (segment report, consolidated financial statements of KfW Group)	537	469
Number of employees (including Management Board)	**697**	**680**

Contents

The figures in tables were calculated exactly and added up.
Figures presented may not add to totals because of independent rounding.

Actual zero amounts and amounts rounded to zero are presented as EUR 0 million.

Dear Readers,

We can look back with pride on a successful year for KfW IPEX-Bank in 2018, with new commitments totalling EUR 17.7 billion. The economic situation in the past financial year was stable, but growth varied across different regions of the world. Our bank successfully fulfilled its mission to support German and European global players in the international marketplace despite the economic and political challenges in some regions, high market liquidity and the constant pressure on banks and institutional investors to invest.

In addition to providing export finance for key industrial sectors, KfW IPEX-Bank focused on infrastructure projects, financing for climate and environmental protection projects and financing for projects aimed at securing the supply of raw materials in Europe. We are thus making an important contribution to growth, prosperity and employment within the EU and on site in the locations where these projects are carried out.

Our contribution to KfW’s consolidated earnings in 2018 was EUR 537 million, affirming our role as one of KfW’s main sources of earnings. We therefore played an active part in securing the Group’s long-term promotional capacity. Alongside our financial contribution to KfW, we also make KfW Group’s 'Responsible Banking' claim a reality: in total, the proportion of financing provided for projects with a significant and measurable positive impact on the climate and environment in the Export and Project Finance business sector stood at 19% or EUR 3.3 billion in 2018. We thus play an important role in improving ecological living conditions.

This is also demonstrated by new commitments totalling EUR 3.4 billion in the 'Power, Renewables and Water' sector department, which in 2018 provided financing for projects including numerous onshore and offshore wind farms, emphasising our commitment to supporting the energy transition on a global basis.

With new commitments of EUR 2.3 billion, the 'Maritime Industries' sector department is actively supporting efforts to make emissions from the cruise industry and merchant shipping as low and as environmentally friendly as possible, by financing energy-efficient bridging technologies such as LNG propulsion and exhaust gas purification systems. Our bank has also joined the Responsible Ship Recycling Standards, the aim of which is to establish an obligation for shipping companies to observe minimum standards of occupational health and safety and environmental protection when scrapping ships.

We pursue these objectives together with our 697 employees based in Germany and abroad, who work with dedication and skill to meet our customers' needs and help them carry out their projects around the world, as well as ensuring the ongoing development of our bank as a leading, reliable and sustainable specialist financier. We would like to take this opportunity to express our sincere thanks for their commitment. We would also like to thank the Board of Supervisory Directors for its close cooperation, as well as KfW's organisational units that work with us and on our behalf. Together, we are working to make the concept of future viability a process of ongoing optimisation. Out of a number of digitalisation and innovation projects carried out during the reporting year, the internal 'Innovation Team' deserves special mention for its work. Over a period of ten weeks, six colleagues used agile methods to consider the bank's further development separately from its day-to-day business, providing the Management Board with meaningful ideas for ensuring the bank's future viability.

We are continuing in our efforts to maintain a strong position as a specialist bank and competent partner to the German and European economies. In future, we will continue to add value to financing projects for our business partners through our industry, structuring and regional expertise. We are achieving this by taking leading roles in financing projects, most of which are structured within syndicates with other financial institutions.

We are well known for our reliable and sustainable working relationships with our partners. In order to best support this, we are maintaining a presence in key economic and financial centres around the globe, with a total of nine representative offices and a branch in London. We are examining the possibility of expanding our representative office network in regions growing in significance to the German and European export economies. We are also selectively adding to our product portfolio to ensure that our financing is structured to meet the needs of our customers.

Despite the challenges to be expected as a result of ongoing high levels of competition and economic development, we can look ahead to the new 2019 financial year with confidence and determination. Our target for new commitments is EUR 16.6 billion, and we look forward to working with you to achieve this.

Andreas Ufer

Markus Scheer

Klaus R. Michalak, CEO

Claudia Schneider

Ten years of KfW IPEX-Bank

Report of the Board of Supervisory Directors 2018

KfW IPEX-Bank began operating as a legally independent subsidiary of KfW on 1 January 2008, and celebrated its ten-year anniversary in 2018. Within KfW Group, it is responsible for the export and project finance activities that have been carried out since the late 1950s. As of the end of December 2018, almost 700 employees worked for the wholly-owned subsidiary of KfW, distributed between its headquarters in Frankfurt and ten further locations outside Germany. The Board of Supervisory Directors has been delighted to support the bank during its first decade.

During the past financial year, the Board of Supervisory Directors carried out its duties in full with regard to monitoring and advising the Management Board and continued to cooperate closely with the Management Board. It was informed by the Management Board of all significant developments at the company in a timely, proactive and comprehensive manner, and was satisfied of the due and proper conduct of business. The Board of Supervisory Directors was involved in all decisions of major importance for the company and granted its approval in relevant cases, where required, following extensive consultation and review.

Meetings of the Board of Supervisory Directors

During the four ordinary meetings that took place on a quarterly basis, the Board of Supervisory Directors was provided with regular updates from the Management Board on the bank's results, risk situation and current business development. It was presented with relevant risk and performance reports as well as the interim financial statements and discussed these at length.

The Board of Supervisory Directors was supported in its duties by five committees, with four members of the Board of Supervisory Directors – in differing combinations – belonging to each committee. In accordance with their respective areas of responsibility, these committees examined upcoming issues in depth and reported accordingly to the Board of Supervisory Directors.

The **Executive Committee** is primarily responsible for personnel matters in relation to the Management Board and for the bank's management policies. It monitored compliance with the Management Board's Rules of Procedure and advised the Board of Supervisory Directors regarding the annual evaluation of the structure, size, composition and performance of the Management Board and the Board of Supervisory Directors. The committee met three times during the reporting year.

The **Remuneration Control** Committee dealt in particular with the remuneration strategy and the process for identifying risk takers. It also supported the Board of Supervisory Directors with monitoring duties to ensure that systems of remuneration for the various groups (Management Board, employees, Head of the Risk Controlling function, Head of the Compliance function and risk takers) were appropriate. It examined the suitability of the remuneration system for members of the Management Board and the compatibility of this system with the corporate strategy geared towards the company's sustainable development, and made a recommendation in this regard to the Board of Supervisory Directors. Furthermore, it assessed the impact of these remuneration systems on the company's risk, capital and liquidity situation, as required by the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – IVV*). The committee was able to consult with KfW IPEX-Bank's Remuneration Officer at all times when performing its supervisory duties. Five committee meetings took place during 2018.

The **Risk Committee** is responsible for advising the Board of Supervisory Directors on the current risk situation, future risk tolerance and the risk strategy, and helps it to monitor implementation of this strategy. During its meetings, risk reports and risk-specific developments in selected portfolios were discussed in detail. The committee monitored implementation of the risk culture and examined whether the incentives set within the remuneration system take sufficient account of the company's risk, capital and liquidity structure. It ensured that the strategies are commensurate with the company's specified risk appetite. The committee met four times during 2018.

The **Audit Committee** deals in particular with accounting matters and monitors the accounting process. Pursuant to another of its core responsibilities, it closely monitored the performance of the audits by the auditor and the swift resolution of any deficiencies identified by the auditor. It recommended that the Board of Supervisory Directors approve the annual financial statements as of 31 December 2017 and the 2017 management report. The Audit Committee also received detailed reports on the resolution status of audit findings regarding the departments 'IT' and 'Internal Auditing', both outsourced to KfW, as well as on regulatory audits performed during the current financial year. Further areas covered by the committee included monitoring the effectiveness of the risk management system, in particular the internal control system (ICS) and the Internal Auditing department. It held five meetings during 2018.

The **Loan Committee** is responsible for loan-related issues. During 2018, it took final decisions on a total of 35 loans at the appropriate authorisation level. There was one instance where a member of the committee abstained from voting due to a conflict of interest. Given the normal market situation, this committee convenes on a monthly basis. It met 12 times during 2018.

Within the framework of their respective areas of responsibility, these committees addressed relevant issues in detail and, where appropriate, made recommendations to the Board of Supervisory Directors. The work of the committees was reported regularly and in detail in subsequent meetings of the Board of Supervisory Directors. The recommendations made by the committees during the reporting year were confirmed by the Board of Supervisory Directors without exception.

Training courses

In 2018, KfW IPEX-Bank held a total of three advanced training seminars for the Board of Supervisory Directors and the Management Board, during which participants looked in detail at monitoring of outsourced functions as practiced at KfW IPEX-Bank, governance and control in the SREP of the ECB, and due diligence regarding environmental and social sustainability in financing projects.

Changes to the Board of Supervisory Directors

Following his departure from the Federal Ministry for Economic Affairs and Energy, former State Secretary Matthias Machnig resigned from the Board of Supervisory Directors on 13 April 2018. State Secretary Dr Ulrich Nußbaum was appointed as his successor, also replacing Mr Machnig as a member of the Loan Committee and on all other committees as a deputy to the member appointed by the Federal Ministry of Finance.

Furthermore, Dr Ludger Schuknecht resigned from the Board of Supervisory Directors on 15 August 2018 to pursue other professional challenges. He was succeeded by Dr Jörg Kukies, State Secretary in the Federal Ministry of Finance, who was duly elected as a member of the Executive Committee, Remuneration Control Committee, Audit Committee and Risk Committee and as a deputy to the member of the Loan Committee appointed by the Federal Ministry for Economic Affairs and Energy.

Audit of the 2018 annual financial statements

Following completion of the audit and after conducting a final review of the annual financial statements as of 31 December 2018 and of the 2018 management report, the Board of Supervisory Directors approved the audit result, the annual financial statements and the management report at its first ordinary meeting, held today, with no objections, and recommended that the general shareholders' meeting approve the annual financial statements.

Discussion centred on the audit report of Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (EY), covering the audit of the annual financial statements as of 31 December 2018 that were prepared by the Management Board as of 19 February 2019, and the management report for the 2018 financial year. EY issued an unqualified audit opinion on 5 March 2019.

The Board of Supervisory Directors would like to thank the Management Board and all employees, as well as those members of the Board of Supervisory Directors who left during 2018, for their commitment, hard work and achievements during the 2018 financial year.

Frankfurt, 22 March 2019
On behalf of the Board of Supervisory Directors

Joachim Nagel

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

Management Report

Economic Report

General economic conditions in 2018

In 2018, the global economy is once again expected to have recorded growth in line with the previous year (+3.7%). However, greater momentum had been predicted at the start of the year than subsequently proved to be the case, as industrialised nations began the year with an unexpectedly weak first quarter. Over the course of the year, economic growth in the USA – where strong economic performance was also underpinned by tax reforms – was in sharp contrast to subdued growth in the euro area and in Japan. The situation in emerging countries was characterised by a tightening in the financing conditions available to them and a downturn in investor confidence during the course of the year. The magnitude of currency devaluations and yield spreads, which affected Turkey and Argentina in particular, was determined by country-specific factors. Global trade was hit by various trade conflicts, most notably the heated exchange of tariffs and counter-tariffs between the USA and China. Although the trade volume involved is limited in global terms, the impact is noticeable in specific areas. Overall, risks to the global economy shifted for the worse over the course of the year.

Over the past year, economic growth in the member states of the European Economic and Monetary Union (EMU) was unable to match the economic momentum of 2017 (+2.4%). Overall, economic output in the EMU countries in 2018 was up by 1.8% year-on-year, with the economic slowdown being significantly exacerbated by a succession of temporary one-off factors (see also the section on Germany). In view of the initially high expectations, this was disappointing. KfW, too, had anticipated a higher growth rate of 2.4%. The slowdown in the economy affected all four major economies in the euro area (Germany, France, Italy and Spain). In particular, European industry suffered from weaker demand for exports. In addition to growing protectionist tendencies, it is likely that the delayed impact of the euro's appreciation is also being felt here. Consumer spending retained its role as a dependable growth driver. Moreover, despite political risks increasing once again and subdued business sentiment, investment activity made a stable contribution to growth.

According to initial estimates from the Federal Statistical Office (Statistisches Bundesamt), the German economy grew by 1.5% in 2018, thus recording slower growth than in 2017 (+2.2%). A year ago, KfW had forecast strong economic growth of 2.5% for 2018. As was the case for almost all forecasters, it thus overestimated actual GDP growth: at the start of 2018, published economic growth forecasts for 2018 had ranged from 1.9% to 2.8%. A number of one-off effects significantly contributed to the forecasts for 2018 proving, in retrospect, to have been too optimistic. For example, the start of 2018 saw substantially more subdued economic development than originally expected, since a serious flu epidemic, warning strikes and an unusually severe cold spell towards the end of winter hampered economic activity in the first quarter. Major problems implementing the new Worldwide Harmonised Light Vehicles Test Procedure (WLTP) in the third quarter led to a sharp cutback in production in the automotive industry, with the result that economic output fell slightly compared to the previous quarter for the first time since the start of 2015. Although the economy ultimately failed to live up to the initially high expectations for its development, Germany still achieved solid annual growth overall in 2018. This is underscored not only by the sustained rise in employment and falling unemployment rate, but also by gross fixed capital formation. This increased markedly again in 2018, even though the global economic environment – vital to Germany as an export nation – became increasingly difficult during the course of the year.

The performance of financial markets was mixed in 2018, both in terms of the year as a whole and with regard to the different currency areas. Up until the start of October, the strongest performance was seen on US financial markets, where the S&P 500, a broad-based benchmark stock index, increased by almost 10% from the start of the year until shortly after the beginning of autumn. Both short-term and long-term USD interest rates also rose noticeably due to a robust economy and more restrictive monetary policy. Subsequently, however, pessimism became increasingly widespread among international investors. This was fuelled primarily by fears that the US Federal Reserve might overreach with its key interest rate increases, against the backdrop of trade disputes between the USA and China and the approaching end of the current US economic cycle. As a result, the major equity indices fell noticeably in value, even in comparison to the start of the year. At the same time, yields fell on government bonds with strong credit ratings, while spreads widened. A number of emerging countries had already suffered earlier in the year due to rising US interest rates, which had been reflected in – sometimes sharp – devaluations of their national currencies. Argentina and Turkey faced currency crises, although these were triggered by home-grown problems.

The European Central Bank (ECB) continued the gradual withdrawal from its unconventional monetary policy in 2018, cutting its monthly net purchases of securities from EUR 60 billion to EUR 30 billion in January. The ECB maintained them at this level until the end of September, as previously announced, before then halving the monthly net purchase volume once again. By the end of the year, the ECB had ceased its asset purchase programme. At the same time, it has indicated in its forward guidance that key interest rates will remain unchanged at least 'through the summer of 2019' and that proceeds from maturing securities will continue to be reinvested until well after the first key interest rate hike. The ECB is interpreting the weaker economic growth observed in the euro area in the second half of 2018 as a temporary dip in the economy that should pass in early 2019. Against this background, money market rates in the euro area remained virtually unchanged at historically low levels, thus remaining in negative territory. A slight upward trend was then seen towards the end of 2018. Meanwhile, increases in interest rates on capital markets were observed only at the beginning of the year. Subsequently, yields here fell on a continuous basis, albeit with some fluctuations. This reflected firstly the growing pessimism among investors about the economic outlook and secondly – at least with regard to bonds with strong credit ratings – a preference for increasingly safe investments due to a heightened perception of risk. As an annual average, yields on ten-year German government bonds were ten basis points higher in 2018 than the average of the previous year. However, towards the end of the year, yields on German government bonds stood at barely 0.25% and thus almost 20 basis points lower than at the start of the year. At the same time, the yield curve flattened. Averaged over the year as a whole, the yield spread between ten and two-year government bonds fell by four basis points compared to the previous year to 105 basis points and by 20 basis points compared to the start of the year to 85 basis points.

US money market rates rose during much of 2018, in response to the US central bank intervening with even greater resolve. The Federal Reserve raised interest rates four times in 2018, each time by 25 basis points, following three such hikes in 2017. Key interest rates thus ranged between 2.25% and 2.50% at the end of the year. The Fed also further reduced its balance sheet, decreasing assets by USD 50 billion per month from autumn 2018. On the US government bond market, yields trended upward until the start of October. Subsequently, the onset of increasing investor pessimism (see section above on the general performance of financial markets) resulted, among other things, in a drastic fall in yields on US treasuries. Yields on bonds with longer maturities fell more sharply than those for securities with shorter maturities. As a result, the yield curve flattened once again. At the start of 2018, the spread between yields on ten and two-year US government bonds was a little over 50 basis points; by the end of 2018, it was barely 20 basis points. Although yields on ten-year US treasuries had risen to around 3.25% by early October, they subsequently fell again to around 2.75% by the end of the year.

In 2018, the USD/EUR exchange rate rose initially from around USD 1.19 per euro to over USD 1.25 per euro. However, it then lost value again from mid-April onwards in light of weaker economic data for the euro area. In addition, from mid-2018 onwards, the confrontational stance of the new Italian government elected in May towards the European Commission weighed on the single currency. Towards the end of the year, the exchange rate stabilised at around 1.14. However, the average exchange rate in 2018 was USD 1.18 per euro, significantly above the previous year's level of 1.13.

Business development in 2018

KfW IPEX-Bank is responsible for international project and export finance within KfW Group. It provides medium and long-term financing in the interests of the German and European economies. This activity is derived from KfW's statutory mission, which is set out in Article 2 of the Law Concerning KfW (KfW-Gesetz).

During 2018, the market environment for KfW IPEX-Bank's activities was influenced by a stable global economy, which nonetheless diverged in individual regions of the world. Accordingly, demand for the capital goods that are financed by KfW IPEX-Bank was also favourable during the reporting year. However, political uncertainties resulted in noticeable regional weaknesses in relation to exports in individual countries.

On the other hand, competition over high-volume project and export financing opportunities was fierce in 2018. As in previous years, both banks and institutional investors continued to record high levels of liquidity and investment pressure.

In this market environment, during the past financial year KfW IPEX-Bank concentrated primarily on supporting longstanding customers, on borrowers with good ratings and on structuring financing backed by good collateral. In the majority of financing transactions concluded in the 2018 financial year, KfW IPEX-Bank acted as a partner in club or syndicate financing arrangements with other national and international banks. In KfW's Export and Project Finance business sector – for which KfW IPEX-Bank is responsible – the bank provided financing totalling EUR 17.7 billion in 2018.

KfW IPEX-Bank generated a commitment volume of EUR 17.0 billion in its original lending business (2017: EUR 12.1 billion), and there were also new commitments of around EUR 0.7 billion (2017: EUR 1.7 billion) for bank refinancing under the CIRR ship financing scheme. KfW IPEX-Bank participates in this scheme within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic). The volume of new commitments forecast for 2018 (EUR 16.3 billion) was thus exceeded by 8%.

With its customised medium and long-term financing solutions, KfW IPEX-Bank once again confirmed its role as a specialist bank for key industrial sectors of the export economy during 2018, supporting German and European exporters on global markets. Of its total commitments, EUR 13.0 billion were attributable to KfW IPEX-Bank's market business, while EUR 4.8 billion constituted trust business performed on behalf of and for the account of KfW (including CIRR ship financing).

KfW IPEX-Bank maintains a presence in key economic and financial centres around the world, with a branch in London and nine foreign representative offices. Key elements of its business strategy are its presence in important international target markets for the German and European export industries and its extensive sector expertise. This is in line with the bank's mission to help the German and European export economies compete in the global marketplace and to provide financing for investment in infrastructure and transport, for environmental and climate protection projects and for projects that secure the supply of raw materials.

KfW IPEX-Bank funds itself almost entirely through borrowings from KfW, at terms and conditions in line with KfW IPEX-Bank's rating on capital markets. During the course of 2018 these funding costs increased overall – with some fluctuations – for KfW IPEX-Bank, as they also did for other European commercial banks. Funding costs of European financial institutions fell up to the end of February, bolstered as they were by the global economic optimism prevailing at the start of the year. Banks' funding costs then rose from March until the end of May. This was triggered by fears that the US Federal Reserve would increase key interest rates more significantly than expected, as well as by the trade conflict between the USA and China and the negative prospect of a twofold crisis in Italy of both government and debt. From June to the end of October, the funding costs of banks moved sideways, albeit with some fluctuations. In November, risk aversion on capital markets, which had heightened significantly across the board, also hit the bank bond markets. In addition to concerns about the trade conflict between the USA and China, Italy's budgetary policy and the risk of a disorderly Brexit, investors were also worried about a global slowdown in economic growth. This led to significantly higher funding costs for European financial institutions by the end of 2018. This meant that averaged over 2018 as a whole, KfW IPEX-Bank's funding costs were above the level of the previous year, both in euro and in US dollars, despite lower EUR-USD basis swap costs.

As in the previous year, KfW IPEX-Bank has an AA+ rating from Standard & Poor's. Moody's raised its rating of the bank from A2 to Aa2 in September 2018.

Overview of results of operations, net assets and financial position

KfW IPEX-Bank generated a profit from operating activities before taxes of EUR 238 million in the 2018 financial year, thus achieving a result of a very high level. Both operating income before risk provisions and valuations and the result from risk provisions and valuations improved significantly compared to the result of the previous year. After taking into account additions to the fund for general banking risks established in accordance with Section 340g of the German Commercial Code (*Handelsgesetzbuch – HGB*), due to ongoing adjustments to movements in the USD exchange rate the bank's profit from operating activities exceeded that of the previous year by EUR 125 million (> 100%).

Operating income before risk provisions and valuations was EUR 258 million, up EUR 111 million (+76%) on the previous year. As a key source of income for the bank, net interest income (EUR 292 million) was down slightly year-on-year, decreasing by EUR 2 million. With effect from the 2018 financial year, the profit share for the silent partner contribution of KfW ceased to be reported as an interest expense, and is instead reported under 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement'. The previous year's figures have not been adjusted. However, if the expense in relation to the silent partner contribution had been taken into account, net interest income would have been down EUR 20 million (–7%) year-on-year. This is primarily attributable to the implementation of portfolio optimisation measures in the previous year. Net commission income was EUR 168 million, exceeding the previous year by EUR 18 million (+12%). Due to the healthy rise in new commitments in the market business, income from processing fees rose substantially. Administrative expense amounted to EUR 244 million, comprising personnel expense (EUR 110 million) and other administrative expense including depreciation and impairment on intangible assets and property, plant and equipment (EUR 134 million). This year-on-year increase of EUR 10 million primarily results from the continued rise in charges in relation to staff pension commitments due to the sustained period of low interest rates. Other operating income and expenses of EUR 42 million (previous year: EUR –63 million) mainly comprise the bank's oreign exchange result as well as income from the reversal of provisions no longer required. In view of the large proportion of USD-denominated loans in the bank's total assets (44%), KfW IPEX-Bank maintains a fund for general banking risks, which serves to strengthen its tier 1 capital and stabilise solvency ratios against fluctuations in the US dollar exchange rate. Additions to the fund for general banking risks pursuant to Section 340g of the German Commercial Code, which appear as a separate item in the income statement, also relate to the bank's foreign exchange result.

Risk provisions and valuations also recorded a very satisfactory result of EUR –5 million and were significantly down on the previous year, decreasing by EUR 73 million (–94%). The negative result from valuations from securities and investments (EUR –18 million) was largely offset by the positive risk provision result in lending business (up by EUR 13 million). During the 2018 financial year, risk provisions were affected first and foremost by the utilisation of specific loan loss provisions already recognised in prior periods in line with the bank's conservative approach to risk assessment. These relate to portfolio optimisation measures, particularly in the sector departments of Power, Renewables and Water and Maritime Industries. Over the reporting year, KfW IPEX-Bank once again covered all recognisable risks.

Operating income before taxes came to EUR 253 million. After deducting appropriations to the fund for general banking risks in accordance with Section 340g of the German Commercial Code (EUR –15 million), profit from operating activities before taxes was EUR 238 million. In addition to the profit sharing for the KfW silent partner contribution (EUR 18 million), the item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement' includes the annual profit of KfW IPEX-Bank amounting to EUR 220 million. Under the profit transfer agreement existing between KfW Beteiligungsholding GmbH and KfW IPEX-Bank, this entire profit is transferred to KfW Beteiligungsholding GmbH. As a wholly-owned subsidiary of KfW, KfW Beteiligungsholding GmbH is the sole shareholder of KfW IPEX-Bank and assumes the role of controlling company within the framework of the CIT fiscal unity. According to the transfer provisions in the agreement, the obligation to transfer annual profit arises at the close of the financial year. Accordingly, KfW IPEX-Bank reported a 'zero result' as of 31 December 2018. The profit was transferred to the controlling company once the annual financial statements had been approved by the general shareholders' meeting in March 2019.

Total assets were EUR 27.3 billion, a year-on-year increase of EUR 1.9 billion (+7%). On the assets side of the balance sheet, loans and advances to banks and customers accounted for by far the largest share of this amount with a total of EUR 25.1 billion (92%), contributing EUR 2.2 billion (+10%) to growth. This item is attributable almost entirely to the bank's lending business. The increase was driven firstly by the high volume of new transactions in the market business, and secondly by the appreciation of the US dollar (+5%) in comparison to the 2017 year-end rate. Around half of KfW IPEX-Bank's credit portfolio is denominated in US dollars. Furthermore, the bank holds a portfolio of highquality and highly liquid assets consisting of KfW securities amounting to EUR 1.5 billion (bonds and other fixed-income securities) in order to satisfy the regulatory liquidity coverage ratio (LCR). An increase in liabilities to banks of EUR 1.5 billion (+8%) to EUR 21.5 billion reflects the higher funding requirements resulting from the favourable development of the credit portfolio. Almost all of this balance sheet item (EUR 21.4 billion) is attributable to ongoing funding from KfW in the form of promissory note loans as well as call money and term borrowings. It also includes borrowings via the issuance of registered Public Pfandbriefe, with KfW as the sole investor. Equity was EUR 3.9 billion on the balance sheet date, a year-on-year increase of EUR 75 million. This resulted from the partial reinvestment in the bank's capital reserve of the 2017 profits transferred to KfW Beteiligungsholding GmbH under the profit transfer agreement.

The volume of business (total assets plus financial guarantees and irrevocable loan commitments) also benefited from the satisfactory growth in new commitments, and at a total of EUR 37.3 billion was up significantly year-on-year, increasing by EUR 4.0 billion (+12%). In addition to the on-balance sheet growth described above, irrevocable loan commitments also rose substantially, recording a year-on-year increase of EUR 2.1 billion (+33%).

The bank's regulatory own funds totalled EUR 4.4 billion as of 31 December 2018. On this basis, the capital ratios were as follows: total capital ratio = 24.25% (previous year: 27.18%), tier 1 capital ratio = 20.34% (previous year: 23.41%) and CET1 capital ratio = 18.12% (previous year: 20.23%).

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

Results from operations	1 Jan.–31 Dec. 2018	1 Jan.–31 Dec. 2017	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1)]	292	294	–2	–1
Net commission income	168	150	18	12
General administrative expense	–244	–234	10	4
Other operating income and expenses	42	–63	105	>100
Operating income before risk provisions/valuations	**258**	**147**	**111**	**76**
Valuations from securities and investments	–18	–15	3	20
Risk provision result in lending business	13	–63	–76	<–100
Risk provisions and valuations, total	**–5**	**–78**	**–73**	**–94**
Operating income before taxes	**253**	**69**	**184**	**>100**
Withdrawals from/additions to the fund for general banking risks as per Section 340g of the German Commercial Code (HGB)	–15	44	–59	<–100
Profit/loss from operating activities before taxes	**238**	**113**	**125**	**>100**
Taxes on income	0	0	0	–
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	–238	–113	125	>100
Net income for the year	**0**	**0**	**0**	**–**

1) Including current income from investments

At EUR 238 million, profit from operating activities before taxes was at a very high level. This profit is composed of operating income before risk provisions and valuations (EUR 258 million) and the result from risk provisions and valuations (EUR –5 million). Operating income before risk provisions and valuations exceeded the prior year figure by EUR 111 million. The result from risk provisions and valuations also improved by EUR 73 million due to the bank's good risk position. Appropriations to the fund for general banking risks of EUR 15 million (previous year: withdrawals of EUR 44 million) due to adjustments to reflect the appreciation in the USD exchange rate compared to the 2017 year-end rate were also taken into account. This allowed KfW IPEX-Bank to substantially exceed the result of the 2017 financial year, with a year-on-year increase of EUR 125 million (>100%).

This was also the case with regard to the forecast made in the prior year for earnings before tax in 2018 (EUR 145 million). In this regard, shortfalls against budget in net interest income and net commission income were offset in particular by the result from risk provisions and valuations, which came in below expectations. Even taking into account the change in presentation during the reporting year of the profit share for the silent partner contribution of KfW (EUR –18 million), profit from operating activities before taxes would substantially exceed both the result achieved in the previous year and forecasts.

Net interest income and net commission income

Net interest income and net commission income amounted to EUR 460 million, and represent the main sources of earnings for the bank. This amount comprised net interest income of EUR 292 million and net commission income of EUR 168 million. The contribution to earnings represented an overall increase of EUR 16 million (+4%) compared to the previous year. If the result is adjusted to take into account the first-time inclusion of expenses for the silent partner contribution of KfW in the item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement', which prior to the 2018 financial year were reported as an interest expense, the contribution to earnings is marginally down year-on-year by EUR 2 million (<1%). This movement is driven primarily by portfolio optimisation measures undertaken in the previous year and the resulting loss of margins.

Net interest income of EUR 292 million comprises interest income including income from investments totalling EUR 735 million, which relates almost entirely to the bank's lending business and money market transactions. Interest income also includes interest-like income in the form of commitment fees for loans not yet disbursed of EUR 25 million. Overall, bonds and other fixed-income securities made a small negative contribution to earnings (<EUR 1 million) due to the sustained period of low interest rates. This item is attributable almost entirely to the portfolio of high-quality and highly liquid assets consisting of KfW securities, which is held in order to satisfy the regulatory liquidity coverage ratio (LCR). Interest income is offset by interest expenses amounting to EUR 443 million, which relate primarily to ongoing funding of the bank (EUR 366 million). In addition, it includes expenses from interest rate, foreign exchange (FX) and cross-currency swaps (EUR 54 million). Further interest expenses amounting to the equivalent of EUR 15 million relate to the subordinated loan of USD 500 million granted by KfW.

Net commission income totalled EUR 168 million, with the largest share (EUR 103 million) attributable to payments from KfW for the E&P trust business administered by KfW IPEX-Bank as a trustee. This involves a commission-based fee that is calculated based on the volume of lending handled, subject to a minimum level to cover costs and a cap. The item also includes income from processing fees in the market business (EUR 56 million) and in the form of guarantee commissions (EUR 12 million). Commission expense amounted to EUR 2 million and resulted primarily from fees for guarantees received in connection with the lending business.

Administrative expense

Administrative expense amounted to EUR 244 million, comprising personnel expense of EUR 110 million and other administrative expense, including amortisation on intangible assets, of EUR 134 million. Administrative expense was thus moderately higher year-on-year by EUR 10 million (+4 %).

Personnel expense is primarily determined by expenditure for wages and salaries (EUR 76 million) for the bank's employees. It includes further expenses of EUR 35 million for social insurance contributions, pensions and other employee benefits, which predominantly comprise appropriations to provisions for the staff pension scheme (EUR 26 million). Despite the legal reforms implemented in 2016 with regard to Section 253 (2) of the German Commercial Code concerning the valuation of provisions with a residual term of more than one year and the accompanying extension of the period over which the average market interest rate used to discount provisions for pension commitments is calculated from seven to ten years, during the past financial year the prolonged period of low interest rates in particular once again led to significantly increased charges for KfW IPEX-Bank overall, with a year-on-year rise of EUR 8 million (+46 %). In total, personnel expenses were up by EUR 11 million (+11 %) year-on-year.

Other administrative expense is determined primarily by general services and project services provided by KfW (EUR 93 million). Furthermore, an additional EUR 26 million in services were provided to the bank by entities outside of the Group. Overall, the item primarily comprised expenses for services used (EUR 70 million), office operating costs (EUR 23 million) and occupancy costs (EUR 12 million). It also included expenditure for the EU bank levy of EUR 15 million. A slight reduction in other administrative expense was achieved, with a year-on-year decrease of EUR 1 million (–1 %).

Administrative expense

	2018 EUR in millions	2017 EUR in millions	Change EUR in millions
Wages and salaries	76	73	3
Social insurance contributions	8	8	0
Expense for pension provisions and other employee benefits	26	18	8
Personnel expense	**110**	**99**	**11**
Non-personnel expense	**134**	**135**	**–1**
Administrative expense	**244**	**234**	**10**

At 55.3 %, the cost/income ratio was slightly higher than the CIR forecast for 2018 (49.6 %). In this regard, the lower than forecast administrative expense was more than offset by net interest income and net commission income coming in below expectations.

Other operating income and expenses

Other operating income and expenses of EUR 42 million included EUR 27 million of income from the reversal of provisions no longer required. Of this amount, EUR 17 million related to provisions recognised in the previous year for contingent losses for derivatives concluded in connection with lending business. During the 2017 financial year, KfW IPEX-Bank had also recognised a provision totalling EUR 11 million to cover any potential repayment obligations arising from rulings by the German Federal Court of Justice (*Bundesgerichthof – BGH*). The Court had ruled that boilerplate clauses contained in commercial loan agreements concluded by banks – which provide for the payment of loan administration/processing fees, irrespective of the term of the contract – are invalid. It was possible to release the majority of this provision (EUR 9 million) to the income statement during the reporting year, as a result of the limitation period lapsing. This item also includes the bank's foreign exchange result (EUR 16 million), which was primarily influenced by the appreciation of the US dollar during the past financial year. Taking into account the counter effect of the appropriation to the fund for general banking risks in accordance with Section 340g of the German Commercial Code in order to adjust it to movements in the USD exchange rate (EUR –15 million), the bank's foreign exchange result has largely been offset. Although this effect is a component of foreign currency valuation, it is reported as a separate item on the income statement as 'Withdrawals from / additions to the fund for general banking risks'.

Risk provisions and valuations

Risk provisions and valuations recorded a very satisfactory result of EUR –5 million and were significantly down on the previous year, decreasing by EUR 73 million (–94 %). This item comprises valuations from securities and investments (EUR –18 million) and the risk provision result in lending business (EUR 13 million).

Valuations from securities and investments are almost entirely attributable to write-downs and losses on disposals in relation to the fund investments of KfW IPEX-Bank.

The favourable trend in the risk provision result in lending business continued again in the 2018 financial year. KfW IPEX-Bank operated in a fiercely competitive market environment, where it concentrated on supporting borrowers with good ratings and on structuring projects backed by good collateral. This is also reflected in the development of the risk provision result, which during the past financial year was affected primarily by the utilisation of specific loan loss provisions already recognised in prior periods in line with the bank's conservative approach to risk assessment. These relate predominantly to portfolio optimisation measures in the sector departments of Power, Renewables and Water, and Maritime Industries. In terms of risk provisions for its lending business, KfW IPEX-Bank makes a distinction between specific loan loss provisions for acute risks and portfolio loan loss provisions for loans for which no specific loan loss provisions have been recorded. The bank recognises portfolio loan loss provisions for foreseeable but not yet individually substantiated counterparty default risks in the lending business in the amount of the expected 12-month loss or, if there is a significant deterioration in default risk compared to the date of initial recognition, in the amount of the credit loss expected over the residual term of the exposure. It covered all recognisable risks with commensurate risk provisions in line with its conservative approach to risk assessment.

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

Taxes on income

Due to the profit transfer agreement concluded between KfW Beteiligungsholding GmbH and KfW IPEX-Bank in order to form a CIT fiscal unity, taxes on income primarily comprise income tax expense for the branch office in London (<EUR 1 million). This is offset by a tax refund in relation to previous financial years for the Frankfurt am Main headquarters.

Net income for the year

During the reporting year, the income statement item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement' included the profit share for the silent partner contribution of KfW (EUR 18 million) for the first time, which had previously been reported in net interest income. In addition, this item contains the remaining annual profit amounting to EUR 220 million, which based on the profit transfer agreement is recognised on the balance sheet as a liability to KfW Beteiligungsholding GmbH with an impact on the income statement. Accordingly, KfW IPEX-Bank reported net income of EUR 0 million for the past financial year.

Net assets

Volume of lending for own account

The volume of lending for own account amounted to EUR 35.1 billion as of the reporting date. This includes on-balance sheet loans and advances to banks and customers as well as irrevocable loan commitments and financial guarantees, both reported off-balance sheet. The volume increased by EUR 4.4 billion (+14%) year-on-year, driven in particular by the satisfactory development in new business. In view of the large proportion of USD-denominated loans in the bank's portfolio, the appreciation of the US dollar in comparison to the 2017 year-end rate also had a favourable impact on the development of the lending volume. The Power, Renewables and Water, Aviation, Mobility & Transport, and Industries and Services sector departments accounted for the largest shares of on-balance sheet lending volume, with a total of EUR 14.4 billion (57%). During the past year, KfW IPEX-Bank issued new commitments in the Export and Project Finance business sector with a commitment volume of EUR 17.0 billion in its original lending business. Of the new commitments, EUR 13.0 billion related to market business, while EUR 4.1 billion related to trust business administered by the bank on behalf of and for the account of KfW. This represents a substantial increase of EUR 4.9 billion (+41%) compared to the subdued performance of the previous year. Furthermore, the bank granted new commitments of EUR 0.7 billion for financing under the CIRR ship refinancing scheme. KfW IPEX-Bank participates in this scheme within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic). New commitments were thus at a very high level overall.

Loans for own account by sector department

Sector department	31 Dec. 2018	31 Dec. 2017	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	5,557	5,060	497
Aviation, Mobility & Transport[1)]	4,806	4,853	–47
Industries and Services	4,004	3,020	984
Maritime Industries	3,747	3,933	–186
Basic Industries	2,808	2,691	117
Financial Institutions, Trade & Commodity Finance	2,161	1,292	869
Infrastructure[2)]	1,946	2,089	–143
Equity Portfolio	21	22	–1
	25,050	**22,960**	**2,090**
Other positions[3)]	35	–102	137
Loans and advances to banks and customers	**25,085**	**22,858**	**2,227**
Financial guarantees[4)]	**1,607**	**1,554**	**53**
Irrevocable loan commitments[4)]	**8,423**	**6,325**	**2,098**
Total	**35,115**	**30,737**	**4,378**

[1)] During 2018 the sector department 'Aviation and Rail' was renamed to 'Aviation, Mobility & Transport'.
[2)] During 2018 the sector department 'Transport and Social Infrastructure (PPP)' was renamed to 'Infrastructure'.
[3)] Mainly includes short-term deposits, ancillary loan receivables and general risk provisions reduced on the assets side.
[4)] Please refer to the Notes for a breakdown by sector department.

Development of other major balance sheet assets
Of the EUR 1.6 billion of bonds and other fixed-income securities, EUR 1.5 billion were attributable to the portfolio of high-quality and highly liquid assets. This consists solely of KfW securities and is held in order to fulfil the regulatory liquidity coverage ratio (LCR). The securities are classified as current assets and are consequently valued strictly at the lower of cost or market. The year-on-year decrease of EUR 0.5 billion (–22 %) resulted from the disposal of maturing KfW securities.

Assets held in trust (EUR 369 million), which are recognised in the balance sheet, include lending business that KfW IPEX-Bank administers on a trust basis for third parties. In civil law terms, these assets are owned by the bank.

Other assets totalling EUR 121 million include the balancing item for the foreign currency translation of derivative hedges (EUR 93 million). They also contain loans and advances to group entities (EUR 18 million).

The carrying amount of investments (EUR 44 million) is mainly attributable to the bank's fund investments.

Financial position

Funding
Liabilities to banks amounted to EUR 21.5 billion as of the balance sheet date. They rose year-on-year by EUR 1.5 billion (+8 %), primarily as a result of the strong business performance and the associated increase in funding requirements. Almost all of this item (EUR 21.4 billion) is attributable to ongoing funding from KfW in the form of debt capital. KfW provides KfW IPEX-Bank with necessary funds at market-based terms on the basis of an existing refinancing agreement. KfW IPEX-Bank obtains funding in the currencies and for the tenors required for refinancing its lending activities. The funding mix comprises conventional money market and capital market products. The bank covers its medium and long-term funding requirements mostly through promissory note loans. Some of its funding requirements are covered through the issuance of registered Public Pfandbriefe, which are acquired exclusively by KfW. Funding is also obtained in the form of call money and term borrowings.

Liabilities to customers (EUR 195 million) primarily comprise deposit business with third parties in the form of term borrowings as well as cash collateral acquired in connection with the lending business.

Structure and development of funding

	31 Dec. 2018 EUR in millions	31 Dec. 2017 EUR in millions	Change EUR in millions
Liabilities to banks			
Current account (KfW)	22	5	17
Call money and term borrowings (KfW)	2,379	1,664	715
Promissory note loans and other long-term borrowings (KfW)	18,894	18,080	814
Interest payable (KfW)	84	89	–5
KfW total	**21,379**	**19,838**	**1,541**
Other	105	119	–14
	21,484	**19,957**	**1,527**
Liabilities to customers			
Other creditors[1)]	195	232	–37
Total	**21,679**	**20,189**	**1,490**

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

KfW IPEX-Bank secures its liquidity and therefore ensures it is sufficiently solvent at all times primarily by means of the refinancing agreement with KfW described above. It also holds a portfolio of high-quality and highly liquid bonds consisting of KfW securities (EUR 1.5 billion) and has an undrawn credit line with KfW (EUR 1.4 billion). Liquid assets in the form of short-term investments with KfW also make a small contribution to ensuring the bank's solvency. 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. 2018 EUR in millions	31 Dec. 2017 EUR in millions	Change EUR in millions
Equity	3,930	3,855	75
Subscribed capital	*2,100*	*2,100*	*0*
Capital reserve	*1,405*	*1,330*	*75*
Retained earnings	*425*	*425*	*0*
Subordinated liabilities	437	417	20
Fund for general banking risks as per Section 340g of the German Commercial Code	339	324	15
Total	**4,706**	**4,596**	**110**

The composition of equity shown in the balance sheet (EUR 3.9 billion) is unchanged compared with the previous year. Subscribed capital consists of share capital and a silent partner contribution from KfW for which there is no contractual maturity date. The capital reserve increased by EUR 75 million in comparison to the previous year. This resulted from a partial reinvestment, to the extent permitted for tax purposes, of the 2017 profit transferred to KfW Beteiligungsholding GmbH. As part of the capital planning process, which uses projections spanning several years, capital shortages are identified at an early stage and measures are recommended where necessary to strengthen the bank's capital. This is used as a basis for making decisions on whether, for example, the bank's capital basis should be strengthened through the partial reinvestment of the transferred profits (more details on the internal capital adequacy assessment process are contained in the Risk Report).

Subordinated liabilities consist of a subordinated loan from KfW of USD 500 million. This falls due for repayment to the creditor on 31 December 2019.

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 regulatory tier 1 capital and stabilising solvency ratios against fluctuations in exchange rates. The appreciation of the US dollar (+5%) compared to the

2017 year-end led to appropriations totalling EUR 15 million during the past financial year. These are reported in a separate item on the income statement and relate to the bank's foreign exchange results.

Development of other material items of liabilities and equity
Provisions of EUR 245 million relate primarily to pensions and deferred compensation, which account for EUR 180 million of this amount. Other provisions of EUR 60 million include in particular liabilities to staff and provisions for credit risks. The EUR 10 million (+4 %) increase in provisions was driven by significantly higher staff pension commitments. Despite the legal reforms implemented in 2016 with regard to Section 253 (2) of the German Commercial Code on the valuation of provisions with a residual term of more than one year and the accompanying extension of the period over which the average market interest rate used to discount provisions for pension commitments is calculated from seven to ten years, during the past financial year the sustained period of low interest rates in particular once again led to significantly increased provision requirements for KfW IPEX-Bank. The impact was partially offset by the decline in other provisions, which was essentially driven by the (partial) reversal of provisions that were no longer required in relation to contingent losses for derivatives. It was also possible to reverse most of the provision that had been recognised during the 2017 financial year to cover any potential repayment obligations arising from the rulings by the German Federal Court of Justice on the invalidity of certain fees contained in loan agreements concluded between banks and commercial enterprises. This was due to the limitation period for claims lapsing.

Other liabilities of EUR 252 million primarily consisted of the profit transfer liability payable to KfW Beteiligungsholding GmbH (EUR 220 million) as well as the liability in relation to the silent partner contribution from KfW (EUR 18 million).

Off-balance sheet financial instruments
KfW IPEX-Bank had derivatives with a nominal volume of EUR 30.6 billion on its books as of the reporting date, of which EUR 25.5 billion (83 %) related to interest rate swaps. A further EUR 3.8 billion (13 %) related to foreign exchange (FX) swaps and EUR 1.1 billion (4 %) to cross-currency swaps. The derivatives volume thus increased by a total of EUR 2.4 billion (+9 %) year-on-year. KfW IPEX-Bank performs derivative transactions primarily in order to hedge interest and exchange rate risks.

Summary

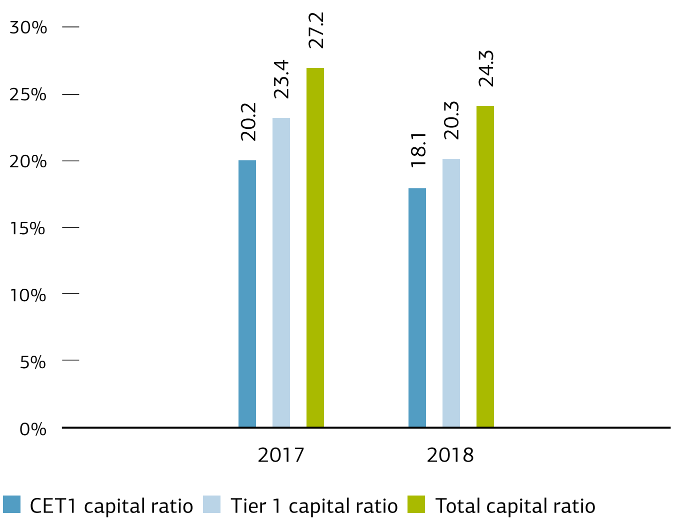
During the past financial year, the market for high-volume export and project financing was characterised by fierce competition and high liquidity. In this challenging environment, KfW IPEX-Bank concentrated on borrowers with good ratings and on structuring financing for projects backed by good collateral. On this basis, the bank generated a profit from operating activities before taxes of EUR 238 million during the past financial year, and thus of a very high level. Both operating income before risk provisions and valuations and the result from risk provisions and valuations improved significantly compared to the previous year. Risk provisions were affected by the utilisation of specific loan loss provisions already recognised in prior periods, in line with the bank's conservative risk assessment approach, in connection with portfolio optimisation measures. Following approval of the annual financial statements by the general shareholders' meeting in March 2019, the annual profit will be transferred to KfW Beteiligungsholding GmbH within the context of the CIT fiscal unity.

Risk Report

Overview of key indicators

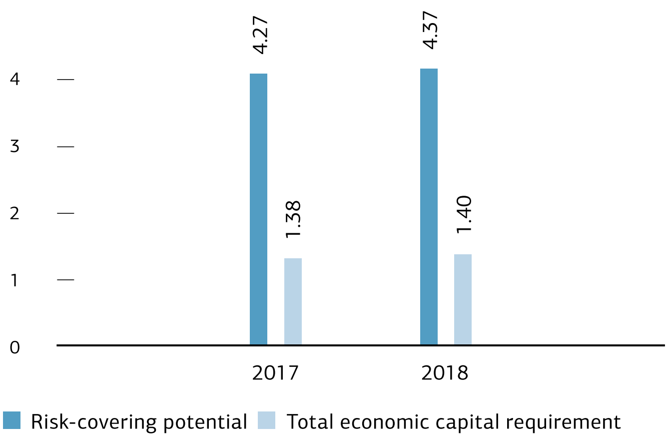
Risk reporting is performed in accordance with KfW IPEX-Bank GmbH's internal risk management system. Key risk indicators are presented below:

Regulatory capital requirements: still comfortably met



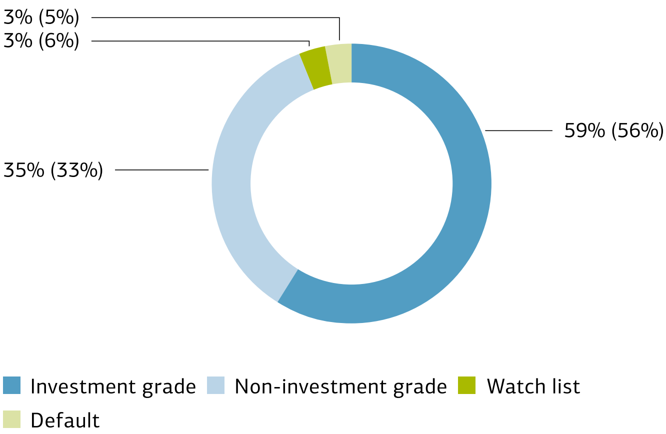
As a result of the high volume of new business and the appreciation of the US dollar against the euro, regulatory capital requirements for credit risks are increasing. This led to lower capital ratios, despite the bank's own funds increasing, mostly due to reinvestment of the majority of the transferred 2017 profit.

Economic risk-bearing capacity: slight improvement in EUR billions

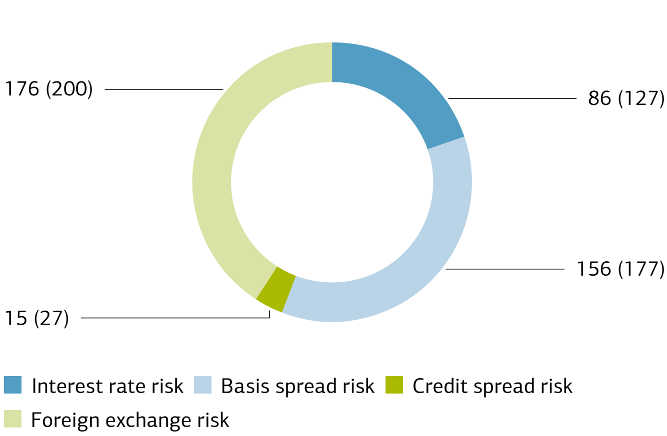


Excess cover is increasing slightly. Risk-bearing capacity comfortably meets the 99.96% solvency target. Capital adequacy improved year-on-year, due in particular to the aforementioned reinvestment of the majority of the transferred 2017 profit. The total economic capital requirement also increased slightly, despite the significant decline in the ECAP for market price risks. This was primarily attributable to switching to the Group's enhanced ECAP model for operational risks as of 31 December 2018 as well as to the increasing credit risks mentioned above.

Credit risk: improved rating structure
2018 (2017), Breakdown of net exposure



Market price risks: foreign exchange risks prevail
2018 (2017), ECAP EUR in millions



As a result of new business and rating upgrades from the watch list, the proportion of investment grade exposures in the portfolio rose to 59% and the proportion of non-investment grade exposures to 35%. Watch list exposures decreased, primarily due to the aforementioned rating upgrades. The NPL portfolio reduced, mostly through sales. Risk provisions have fallen. This was attributable to net reversals as well as greater utilisation of risk provisions, in particular as a result of the loan sales noted above.

Within market price risks, the majority of economic capital is still allocated to foreign exchange risk. The ECAP requirement for market price risks fell overall, primarily due to the reduction – decided as part of the 2018 risk strategy – in the stop-loss buffer in relation to interest rate risk (EUR –50 million) and in relation to foreign exchange risk (EUR –20 million). The lower ECAP requirement for basis spread risk results predominantly from the risk-mitigating effects of market data. As a result of the reduction in the relevant securities portfolio, the ECAP requirement for credit spread risk also decreased.

Significant developments and outlook

Given current geopolitical and global economic challenges, the risk situation in individual sectors continues to be closely monitored, including with regard to ongoing uncertainties in commodity markets and emerging countries. Overall, the ongoing trade conflict between the USA and China is resulting in more pessimistic economic forecasts.

Increasing concerns about developments in the global economy and the associated flight of many investors away from risky investments has also put pressure on commodities markets. Following an increase in the oil price during 2017 (+18%), the Brent price fell by almost 40% in the last quarter of 2018 and by 16% over the year as a whole. Subsequent developments in the oil price will depend largely on the development of the global economy and of the US fracking industry; in the long term, many experts expect an oil price at the current level of around USD 60/barrel.

The offshore oil portfolio is subject to risk due to drastic investment cuts made by oil companies. During 2018, there were further reductions in expenses for exploration activities and production in the offshore oil segment. Oil companies have noticeably shifted their investment focus to the onshore segment (both conventional and unconventional). Even if oil companies regain their willingness to invest in the offshore oil segment, structural excess supply will persist, such that utilisation and rates for offshore service companies will remain under pressure. The segment continues to be closely monitored and managed.

In merchant shipping, structural issues have made a substantial contribution to the duration and gravity of the crisis. As a result of significantly reduced order books, supply-induced risks for freight and charter rates in the different segments have fallen, even though the adverse impact of overbuilding has continued. KfW IPEX-Bank has extensively addressed the risks from these pressures in the portfolio. New business in the merchant shipping segment is only undertaken if sustainable utilisation and good collateral can be ensured.

Depending on the progress of current political discussions, the United Kingdom may exit the European Union (EU) on 29 March 2019. KfW IPEX-Bank has evaluated the impact of Brexit on its credit portfolio under the conservative assumption of a 'hard' Brexit without a transition period. Overall, the potential effects on credit risk are acceptable. The same applies with regard to the potential loss of the London branch’s EU passport, as the only activities requiring a bank licence in the UK are support activities for concluding swaps in relation to project financing. At the current point in time, the impact on the bank of a hard Brexit appears manageable.

In light of the weakening global economic situation and continued uncertainty, the overall rating trend for the portfolio as a whole is expected to be stable to slightly negative on average in 2019.

As in previous years, KfW IPEX-Bank continued to systematically develop its processes and instruments for risk management and control in the 2018 financial year, giving due consideration to current banking supervisory requirements. In addition to switching to the Group's ECAP model for determining the capital requirement for operational risks, KfW IPEX-Bank introduced a new system for country limits. Furthermore, the bank established a Market Price and Liquidity Risk Committee (MLRC) and a Non-Financial Risk Committee (NFRC). Both committees are chaired by the member of the Management Board responsible for risk management. Guidelines were also established for the implementation of a strategy in relation to non-performing loans, where this is required.

General conditions of risk management and control

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

Business and risk strategy

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

- Credit risk
- Market price risks (foreign exchange risk, interest rate risk, basis spread risk)
- Operational risk, in particular service provider risk (including outsourcing risk), information security risk, physical security risk, legal risk and compliance risk
- Liquidity risk
- Concentration risk
- Regulatory risk

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

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

Organisation of risk functions

The Management Board represents the highest decision-making body with responsibility for risk control and monitoring. As such, it is responsible above all for defining the risk strategy, risk standards and risk assessment methods. KfW IPEX-Bank's risk functions comprise the following departments: Credit Risk Management I and II, Restructuring and Collateral Management and Risk Controlling. These are all separate from the front-office areas up to the level of the Management Board. This means that the separation of functions between the front office and back office as called for in the German Minimum Requirements for Risk Management is ensured at all levels of the organisational structure.

The two departments Credit Risk Management I and II are each responsible for approval and analysis. Approval activities include providing a second vote when loan submission documents are assessed, while taking risk aspects into account and adhering to the principle of separating front-office and back-office functions. They also include identifying and evaluating risks in the portfolio at an early stage and determining measures to reduce these risks, as well as reviewing and approving ratings assigned to new and existing project financing transactions. Analysis responsibilities include conducting regular analyses and ratings of corporate and asset financing for both new and existing transactions, as well as producing sector analyses.

The Restructuring and Collateral Management department is responsible for loan restructuring and collateral management. Restructuring activities comprise problem loan processing and, in some cases, intensified management of exposures. The Collateral Management team is responsible for the proper provision and valuation of all collateral. It monitors the eligibility of collateral when determining risk indicators and, in this context, continuously monitors development of the value of collateral.

The Risk Controlling department is responsible for specialist supervision of the tools used (rating, pricing), validating valuation procedures for security in rem and specialist monitoring of risk functions outsourced to KfW, including risk reporting. It is also responsible for portfolio management, operational limit management, operational risks and business continuity management.

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

The Internal Auditing department analyses the effectiveness and adequacy of the risk management system independently of processes and reports directly to the Management Board. It thus makes an important contribution to ensuring the effectiveness of the internal control system. Audits are planned and performed using a risk-based approach.

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

Internal capital adequacy assessment process

A key aspect of KfW IPEX-Bank's internal capital adequacy assessment process (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 closely integrate these two ICAAP 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 2018, the risk-covering potential was EUR 4,372 million, consisting of:

EUR 3,267 million in CET 1 capital,
EUR 400 million in additional tier 1 capital, and
EUR 705 million in tier 2 capital.

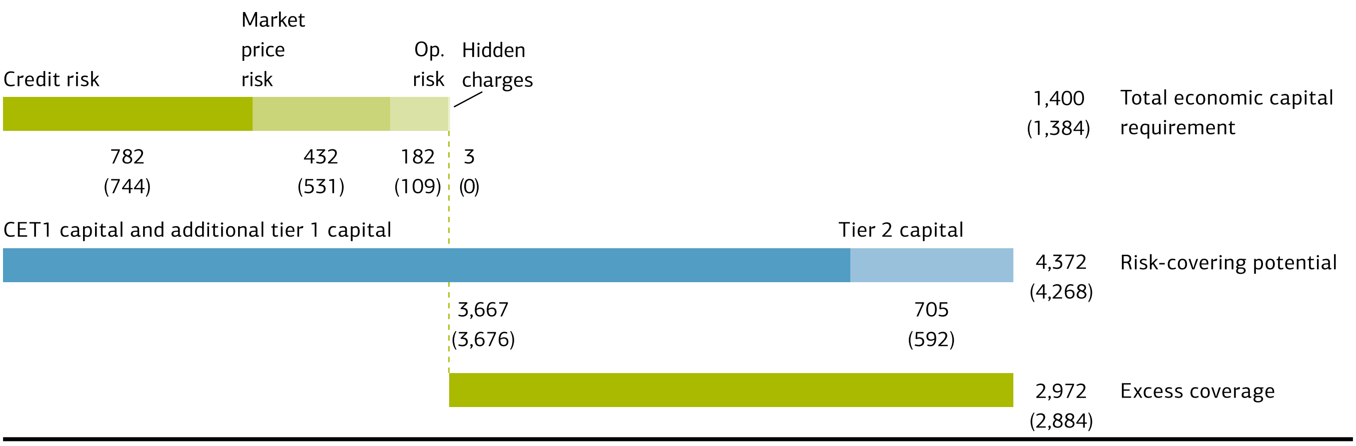
The bank's economic risk-bearing capacity comfortably meets the 99.96% solvency target. As of 31 December 2018, excess risk-covering potential above total capital requirements had increased from EUR 2,884 million at the end of 2017 to EUR 2,972 million. This increase was due to the rise in risk-covering potential, which resulted from reinvestment of the majority of the 2017 profit transferred to KfW Beteiligungsholding GmbH and the exchange rate-related increase in the fund for general banking risks, which is denominated in US dollars. The capital required to cover credit risk – as the bank's most relevant risk type – rose from EUR 744 million at the previous year-end to EUR 782 million. Contributing factors included the high volume of new business in 2018 as well as the appreciation of the US dollar against the euro. The capital requirement for operational risk increased as a result of enhancements to the underlying risk model. This was offset by a decline in the capital requirement for market price risks, primarily due to the reduction in the stop-loss buffer in relation to interest rate risk (EUR –50 million) and in relation to foreign exchange risk (EUR –20 million), which was decided as part of the 2018 risk strategy.

The regulatory capital ratios for KfW IPEXBank fell year-on-year, primarily because the regulatory capital requirement for credit risks increased as a result of the high volume of new business in 2018 and the appreciation of the US dollar against the euro. As of 31 December 2018, the total capital ratio stood at 24.3% (previous year: 27.2%), the tier 1 capital ratio at 20.3% (previous year: 23.4%) and the CET1 capital ratio at 18.1% (previous year: 20.2%). All regulatory capital requirements were comfortably met at all times in 2018.

The bank's additional forward-looking approach is a further prominent feature of how it manages its capital adequacy assessment process. This entails assessing the absorption potential of KfW IPEX-Bank's capital reserves – and therefore its ability to act – when specific economic (stress) scenarios arise. A traffic light system with thresholds for economic and regulatory

Economic risk-bearing capacity as of 31 Dec. 2018

EUR in millions



In brackets: figures as of 31 Dec. 2017

risk-bearing capacity has been established as part of this. When critical developments arise, this system indicates that operational or strategic control measures need to be taken.

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

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

In addition to the risk-bearing capacity plan, a capital planning process is carried out regularly to safeguard the bank's risk-bearing capacity in the medium term. The capital planning process uses scenario-based projections 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 capital adequacy ratios in a stress case.

Stress tests and test scenarios

In addition to economic scenarios used in the capital adequacy assessment process, further stress tests are performed on a regular basis, taking 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 2018, these tests focused on scenarios involving a confidence crisis in the EU, an economic crisis in Turkey with an impact on other emerging countries and a 'hard' Brexit with contagion effects in the EU. Inverse stress tests are also used to show how KfW IPEX-Bank's risk-bearing capacity could be pushed to its limits in unfavourable circumstances. The potential effects of planned regulatory reforms in the context of the finalisation of Basel III on KfW IPEX-Bank's capital ratios were also simulated in 2018.

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, special financing risk and shadow banking 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). For economic management purposes, estimation of the EAD and LGD parameters closely follows the IRBA. Under supervisory law, KfW IPEX-Bank is permitted to apply the IRBA in its rating systems for the following:

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

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

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

With the exception of project, ship and aircraft financing transactions, these processes are based on scorecards and follow a uniform, consistent model architecture. In the case of project, ship and aircraft financing, various simulation-based rating modules, licensed from an external provider, are used to measure counterparty default risk. In such cases, the risk assessment is mainly determined by the cash flows generated by the financed asset or project.

The rating procedures are calibrated to a one-year probability of default. Both ratings for new customers and follow-on ratings for existing customers are determined observing the principle of dual control in the back-office departments.

Comparability of individual rating processes is guaranteed by depicting the probabilities of default on a 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 the responsibilities, authorities and control mechanisms. Comparability between internal ratings and external ratings by rating agencies is assured by mapping the external ratings onto the master scale.

Regular validation and further development of the rating processes 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, adjustments are attributable not only to market price fluctuations but also, and principally, to losses in value due to depreciation. The value thus calculated is an important component of loss estimates (LGD).

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

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

[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.

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

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

Management of counterparty default risk

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

Limit management

The limit management system (LMS) is used primarily to limit default risks. This involves monitoring individual commitments and concentration risks, which are controlled and restricted by setting limits. Limits are set per group of connected clients and per country and also per individual counterparty in the case of shadow banks. Limits are applied based on the variables of net exposure and economic capital requirement. Individual limits deviating from standard limits may be defined, taking into account internal guidelines concerning the allocation of individual limits.

Risk guidelines

In addition to the LMS, the credit portfolio is managed by way of risk guidelines. For this purpose, Credit Risk Management proposes specific guidelines based on the current risk situation and the business policy objective. These are approved by the Management Board and must be taken into account by the front-office 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 and to limit concentration risks by identifying ways to reduce risk and by bringing about decisions. Portfolio management is also included in the annual planning process in order to integrate its risk and portfolio perspective into both the strategy process and group business sector planning.

Portfolio Risk Committee

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

Intensified loan management and problem loan processing

Exposures with a considerably higher risk of default (watch list cases) are subject to intensified loan management. This involves closely monitoring the economic performance of the borrower and reviewing the collateral values on a regular basis. In the case of non-performing loans (NPL) the possibility of loan restructuring or other remedial action is considered. If restructuring or other remedial action is not possible or not worthwhile economically, the loan will be liquidated and the collateral realised. At the same time, the alternative of selling the loan on the 'distressed market' is also always evaluated. The Restructuring and Collateral Management department is in charge of processing non-performing loans, and in some cases, it also helps to manage or takes over the processing of commitments subject to intensified loan management. This ensures that specialists are involved at an early stage so as to guarantee comprehensive and professional problem loan management.

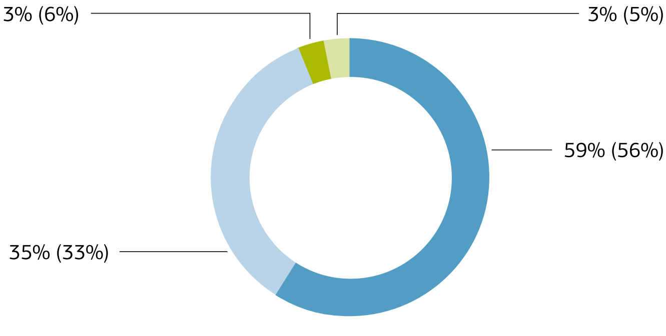
Counterparty Risk Committee

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)]

2018 (2017), Total net exposure: EUR 8.0 billion

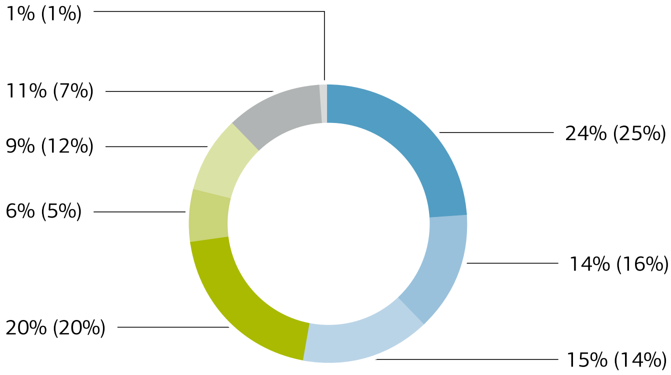


1) The net exposure for performing loans can be calculated as the maximum function of economic and political net exposure.

The credit rating structure of the performing portfolio has improved year-on-year, due to an overall increase in the portfolio resulting from the significant level of new business and US dollar appreciation. Net exposure is EUR 8.0 billion. The proportion of investment grade exposures rose to 59%, primarily due to new business, while the proportion of non-investment grade exposures also increased, to 35%, due to rating upgrades from the watch list. The proportion of watch list loans reduced to 3%, primarily due to the aforementioned rating upgrades. The proportion of NPLs in the portfolio reduced to 3% of net exposure, in particular due to loan sales. The average probability of default of the performing portfolio fell from 1.25% to 0.94% in financial year 2018.

Economic capital requirements by sector department

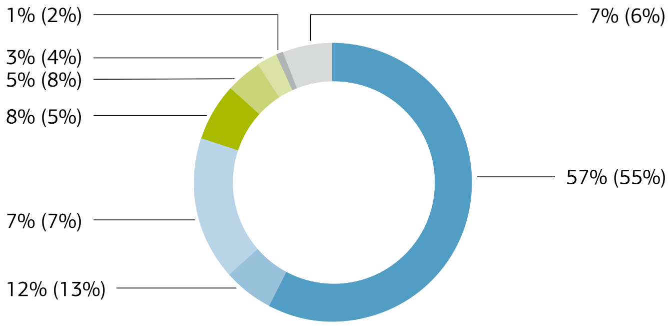
2018 (2017), Total ECAP: EUR 782 million



The above overview shows the diversification of the portfolio across the bank's individual sector departments. The largest shares of economic capital continue to be allocated to the sector departments of Power, Renewables and Water and Maritime Industries, with 24% and 20% respectively.

Economic capital requirements by region

2018 (2017), Total ECAP: EUR 782 million



In regional terms, business is focused on Europe, including Germany, accounting for 69% of economic capital for counterparty default risk.

Risk provisions for counterparty default risks

All identifiable default risks in the lending business are adequately taken into account by creating risk provisions. Specific loan loss provisions and other provisions for the lending business decreased year-on-year to EUR 166 million as of 31 December 2018. This was attributable to net reversals as well as greater utilisation of risk provisions, especially in the Power, Renewables and Water and Maritime Industries sector departments, as a result of loan sales.

The portfolio of specific loan loss provisions and other lending business provisions for disbursed loans, financial guarantees and irrevocable loan commitments, structured according to sector department, was as follows as of 31 December 2018:

Specific loan loss provisions

Sector department	31 Dec. 2018 EUR in millions	31 Dec. 2017 EUR in millions	Change EUR in millions
Maritime Industries	83	123	–40
Financial Institutions, Trade & Commodity Finance	39	29	10
Infrastructure[1]	16	16	0
Basic Industries	15	14	1
Power, Renewables and Water	13	43	–30
Aviation, Mobility & Transport[2]	0	6	–6
Industries and Services	0	5	–5
Equity Portfolio	0	0	0
Total	**166**	**236**	**–70**

[1] During 2018 the sector department 'Transport and Social Infrastructure (PPP)' was renamed to 'Infrastructure'.
[2] During 2018 the sector department 'Aviation and Rail' was renamed to 'Aviation, Mobility & Transport'.

Portfolio loan loss provisions increased year-on-year to EUR 130 million as of 31 December 2018. The increase in portfolio loan loss provisions largely results from the change to valuation methodology implemented in 2018. The bank recognises portfolio loan loss provisions for foreseeable but not yet individually substantiated counterparty default risks in the lending business in the amount of the expected 12-month loss or, if there is a significant deterioration in default risk in comparison to the date of initial recognition, in the amount of the credit loss expected over the residual term of the exposure.

As of 31 December 2018, portfolio loan loss provisions by sector department were as follows:

Portfolio loan loss provisions

Sector department	31 Dec. 2018 EUR in millions	31 Dec. 2017 EUR in millions	Change EUR in millions
Power, Renewables and Water	37	17	20
Maritime Industries	32	25	7
Basic Industries	27	10	17
Infrastructure[1]	9	10	–1
Financial Institutions, Trade & Commodity Finance	9	6	3
Aviation, Mobility & Transport[2]	8	12	–4
Industries and Services	4	3	1
Equity Portfolio	1	1	0
Other	3	1	2
Total	**130**	**85**	**45**

[1] During 2018 the sector department 'Transport and Social Infrastructure (PPP)' was renamed to 'Infrastructure'.
[2] During 2018 the sector department 'Aviation and Rail' was renamed to 'Aviation, Mobility & Transport'.

Write-downs on investments totalling EUR 16 million were also required during the financial year for solvency reasons. There were no write-downs for solvency reasons in 2018 in relation to other securities in the investment portfolio or securities held as current assets.

Market price and liquidity risks

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

Market price risks of relevance to the bank are interest rate risk, foreign exchange risk, credit spread risk and basis spread risk. 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 forms part of counterparty default risk. Basis spread risk essentially consists of two components: Tenor basis risks are defined as changes in present value and income statement effects from relevant products (such as swaps or floating-rate bonds) arising from changes to differences in swap rates with the same maturities, but differing variable interest (e.g. 3m vs 6m Euribor) within one currency. Cross-currency basis risks are defined as changes in present value and income statement effects arising from changes in the spread premium when swapping two variable interest rates between different currency areas, including principal swaps.

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

In 2018, the bank established a Market Price and Liquidity Risk Committee (MLRC), which is chaired by the member of the Management Board in charge of risk management. The committee discusses market price and liquidity risks and meets every quarter or on an ad hoc basis. The committee focuses on monitoring the current risk situation as well as on discussing management of market price and liquidity risks and aspects in relation to funding, transfer pricing, derivatives business, local currency business and valuations conducted in accordance with the German Commercial Code.

Interest rate risk and foreign exchange risk

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

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

Interest rate risk and foreign exchange risk are measured and controlled on a net present value basis using the economic capital concept. In this process, a present value loss is calculated that is highly unlikely to be exceeded within one year across the entire portfolio of KfW IPEX-Bank in the event of possible changes in the yield curve or foreign exchange rates. The economic capital requirement both for interest rate risk and foreign exchange risk is composed of a capital buffer for present value losses and a risk value. The capital buffer for present value losses is for a present value loss that is accepted by the bank's management and may occur within one year. Furthermore, any losses in value that may occur additionally 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 risk and foreign exchange risk 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 2018. It also shows the reduction in present value for the regulatory interest rate shock scenario as specified in Circular 09/2018 issued by the German Federal Financial Supervisory Authority (BaFin) in absolute terms and as a proportion of regulatory own funds:

Currency

	EUR	USD	GBP	CHF	JPY	Other	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Present value interest book	3,562.3	532.4	63.7	0.0	0.0	50.5	4,208.9
Economic capital requirement for interest rate risk (99.96%/ two-month holding period)	–	–	–	–	–	–	86.2
Interest rate sensitivity (change in present value given an increase in the interest rate by one basis point)	0.342	–0.029	–0.020	0.0	0.0	–0.005	0.288
Reduction in present value given regulatory interest rate shock (+200/–200 bp)	–	–	–	–	–	–	93.3
As a proportion of regulatory own funds[1]	–	–	–	–	–	–	2.1%

[1] Own funds as of 31 Dec. 2018: EUR 4.371,9 million

The risk indicators for 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 2018.

Economic capital requirement for foreign exchange risk	Regulatory capital requirements for foreign exchange risk
EUR in millions	EUR in millions
175.6	8.4

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 HQLA (High Quality Liquid Assets) portfolio and other securities (in particular lending in the form of securities).

The economic capital concept is used to measure credit spread risk in the securities portfolio. Accordingly, the economic capital requirement for the credit spread risk is measured as the value at risk (VaR) based on a historical simulation. In this process, a loss in the value of the securities portfolio is calculated that is 99.96 % probable not to be exceeded within one year in the event of possible changes in credit spreads. The economic capital requirement for the credit spread risk as of 31 December 2018 was EUR 15.0 million.

Basis spread risk

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

The economic capital concept is used to measure basis spread risk. The economic capital requirement is determined using a parametric value-at-risk approach. In this process, a present value loss is calculated that is 99.96% probable not to be exceeded within one year across the entire portfolio of KfW IPEX-Bank in the event of possible changes in the basis spread. The economic capital requirement for basis spread risk as of 31 December 2018 was EUR 155.7 million.

Institutional liquidity risk

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

KfW IPEX-Bank's liquidity requirement is taken into account at group level in the strategic refinancing planning of KfW. 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 coverage ratio (LCR). The LCR is managed following a limit-based approach, which is implemented in the form of a traffic light system. Furthermore, KfW IPEX-Bank calculates 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. 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

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. The sub-risks of operational risk that have been classified as significant are service provider risk, information security risk, physical security risk, legal risk and compliance risk.

KfW IPEX-Bank outsources key elements of funding, finance, financial and risk controlling, IT and reporting to KfW (service provider risk). 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 roles that are process-dependent, roles that are performed alongside processes, and roles that are independent of processes. The main points of contact in the relevant departments are responsible for specialised process-dependent monitoring on a decentralised basis, while KfW IPEX-Bank's outsourcing officer or the sourcing managers are responsible for formal, methodology-related aspects of these monitoring activities on a centralised basis. As part of the annual risk analysis, the Regulatory Compliance department evaluates the appropriateness and effectiveness of procedures and safeguards that KfW IPEX-Bank has put in place in order to implement standards that are of significance to the bank. This includes an assessment of the appropriateness and effectiveness of the implementation of standards in cases where this implementation has been outsourced to KfW. The responsibilities of Regulatory Compliance include participating in the risk assessment of outsourcing management pursuant to AT 9 no 2 of the German Minimum Requirements for Risk Management.

In addition, Internal Auditing carries out process-independent monitoring, reviewing the appropriateness and proper conduct of all activities and processes.

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

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

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

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

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

The most important instruments in operational risk management include risk assessment, recording operational risk events, deriving measures to address them and the early-warning system.

Significant operational risks are systematically analysed and assessed using risk scenarios during 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. Using cause analysis, weaknesses in business processes can be identified and operational risks can be quantified. The database also enables evaluation and electronic archiving of loss data.

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

Furthermore, from 31 December 2018 the method for determining economic capital for operational risks was converted to a quarterly calculation using the Group's enhanced ECAP model.

The bank has established a Non-Financial Risk Committee (NFRC) to discuss operational risks, among other matters. The committee is chaired by the member of the Management Board responsible for risk management and meets every quarter or on an ad hoc basis. In addition to monitoring the current risk situation with regard to non-financial risks overall, the committee focuses primarily on discussing sub-risks of operational risk that are classified as significant for KfW-IPEX Bank with the responsible specialist units. The committee also deals with relevant issues in relation to regulatory risk, reputational risk and business continuity management.

Concentration risks
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, Mobility and Transport).

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

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

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

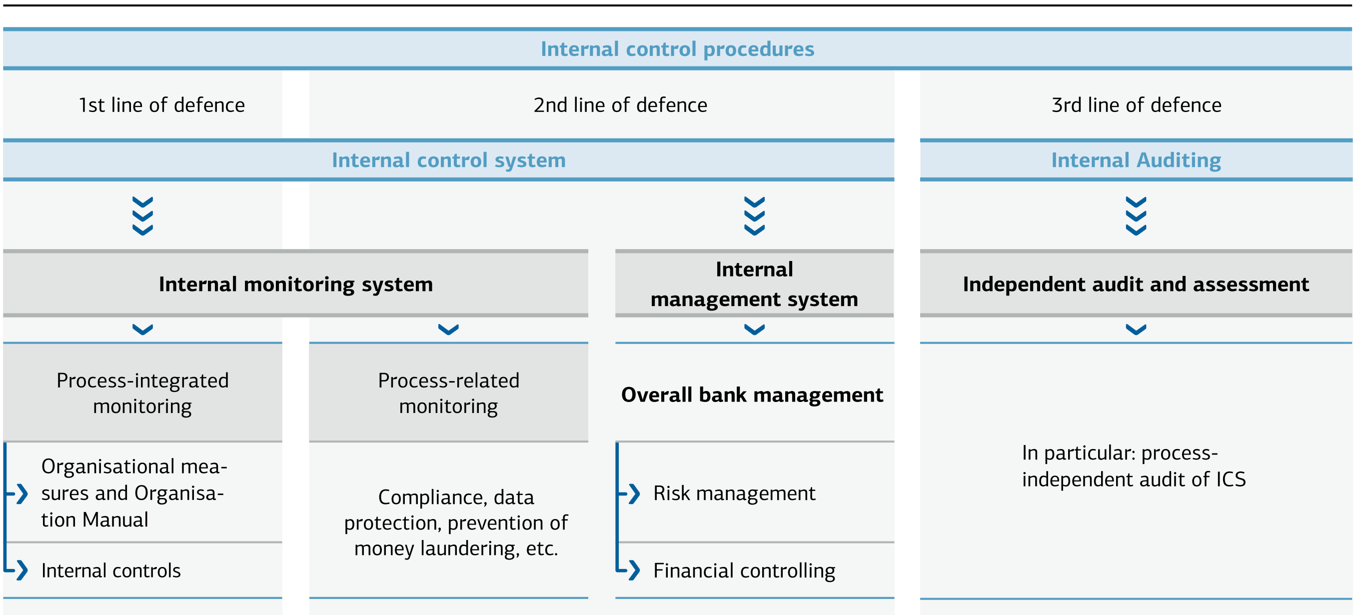
Regulatory risks
Regulatory risks for KfW IPEX-Bank arise primarily through more stringent requirements for minimum capital ratios and due to potentially negative consequences for KfW IPEX-Bank's business model resulting from future changes in the regulatory environment. These also include costs incurred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

Regulatory risk is taken into account as part of the capital adequacy assessment 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 new 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
The internal control procedures at KfW IPEX-Bank consist of the internal control system (ICS) and the Internal Auditing department. They aim to ensure that corporate activities are controlled and that the rules that have been put in place are functioning properly and 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 written procedural rules of KfW IPEX-Bank.



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

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

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

**Internal control system –
Process-related monitoring – Compliance**
Compliance with regulatory requirements and voluntary performance standards is part of KfW IPEX-Bank's corporate culture. KfW IPEX-Bank's compliance organisation includes, in particular, systems for preventing insider trading, conflicts of interest, money laundering, terrorist financing and other criminal activities as well as for dealing with financial sanctions. It also encompasses regulatory compliance. Accordingly, the bank has binding rules and procedures that are continually updated to reflect the latest statutory and regulatory conditions as well as market requirements.

In keeping with the 'three lines of defence' model, the Compliance department has broadened its function as the control unit within the second line of defence and enhanced its control activities in this regard. The Compliance team performed various 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 framework on internal governance of internal control procedures 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 internal control system for accounting processes.

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

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

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

Other disclosures

Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code

KfW IPEX-Bank needs well trained and motivated employees who impress customers with their expertise, service-minded approach and professionalism. Important building blocks of the bank's human resources (HR) policy include a success-based, performance-oriented remuneration system, the KfW IPEX-Bank Academy in-house advanced development programme, arrangements to support a work-life balance, and a variety of professional and healthcare benefits. The proportion of employees working part-time rose to 24.6% by year-end. The proportion of female staff was 48%.

Increasing the number of women in management positions not only reflects the requirements of German law on equal participation of women and men in management positions in the private and public sectors, but also the bank's own values. As of 31 December 2018, the proportion of women in head of department positions at KfW IPEX-Bank was 27.8% and the proportion of women at team head level was 29.9%. 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 2022, and the proportion at team head level to 30%. By 30 June 2022, 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).

Non-financial statement pursuant to Section 289b (2) of the German Commercial Code

In accordance with Section 289b (2) of the German Commercial Code, KfW IPEX-Bank is exempt from the obligation to supplement the management report with a non-financial statement.

Details on the 'Combined non-financial statement of KfW as parent company and of the Group' are contained in the standard report of the 2018 Sustainability Report. The report follows the Global Reporting Initiative (GRI) guidelines and can be downloaded on the internet[5].

[5] https://www.kfw.de/PDF/Download-Center/Konzernthemen/Nachhaltigkeit/Nachhaltigkeitsbericht-2018.pdf

Forecast Report

KfW expects a slowdown in the economy worldwide in 2019, with the global economy forecast to grow less strongly than in the previous year, by a predicted 3.6%. In this respect, industrialised nations are forerunners in the economic cycle, having already passed their peak during 2018. This was particularly true in the USA and the euro area. For industrialised nations, this means real growth of 2.0% in 2019, after reaching 2.3% a year earlier. No additional momentum is expected from developing and emerging countries, which will see growth unchanged at 4.7%. There is also increasing cyclical divergence between economies, following the broad-based global upturn seen in 2017. Developing and emerging countries in Asia will probably continue to report the highest growth rates, although these are expected to be lower than in 2018. The extent of the slowdown will be strongly influenced by China, due to the size of its economy and regional trade links. For its part, China will need to deal not only with its planned deceleration in growth, but also with the negative consequences of its trade conflict with the USA. Furthermore, it must bring its supportive fiscal and monetary policy measures into line with steps to curb credit growth.

In the European Economic and Monetary Union (EMU), the high expectations for 2018 were not met. The EMU economy is experiencing slower economic growth due to a lack of momentum from foreign trade. KfW anticipates a continued gradual slowdown in the economy in 2019. Against the backdrop of a difficult risk environment, real GDP is likely to grow by 1.6% in 2019. This still represents solid growth potential and signifies a continuation of the recovery that has been taking place over several years. Since global economic performance has been hit by tighter financing conditions and the strained trade policy environment, foreign trade will once again have a minor negative impact on European economic growth this year. This means that the domestic economy will need to be the mainstay of any upturn. The fundamental starting position for this is sound: the economy is being boosted by a low unemployment rate, an upward trend in real wages, high capacity utilisation and significant fiscal stimuli.

At the start of 2019, general conditions for domestic demand in Germany and the euro area as a whole still appear to be in good shape. Consumer spending and housing construction are therefore expected to bolster the economy further. On the other hand, numerous international uncertainties such as US protectionism, Brexit and Italy's public finances are likely to continue and curb growth in corporate investment. The slowdown in the global economy was already noticeable in the restricted export momentum seen during 2018. No significant change is expected this year. All in all, KfW expects real growth of 1.6% in 2019, which is more or less in line with potential growth in Germany. Utilisation of production capacity therefore remains high, but will not increase any further. There are considerable downside risks.

In 2019, financial markets will remain dominated – as in the last few months of 2018 – by the issue of whether in the opinion of investors, the US Federal Reserve will succeed in further tightening its monetary policy without harming the US economy in the process. Although this is precisely the role of the US central bank, many investors are still likely to remember the 2007/2008 financial crisis, which was caused among other things by US monetary policy being tightened too rapidly. We assume that members of the Federal Open Market Committee (FOMC) will have learned from this experience and will therefore exercise caution when it comes to raising key interest rates further. As of the end of 2018, the federal funds rate ranged between 2.25% and 2.50%, with this interest rate having been raised on four occasions during 2018, each time by 25 basis points. Our expectation is that the FOMC will undertake a maximum of three such interest rate hikes in 2019, with no further increases after that. This should allow US interest rates to rise only moderately and ensure greater calm on the financial markets, generally supporting stocks and enabling risk premiums to fall. On the other side of the Atlantic, the European Central Bank ceased its net securities purchases as of 31 December 2018 and announced its intention to leave its key interest rates unchanged 'through the summer of 2019' and to reinvest proceeds from maturing securities until well after the first key interest rate hike. We anticipate an initial cautious rise in the deposit rate in autumn 2019, and then expect to see increases in all three key interest rates every six months, in each case by 25 basis points. Accordingly, the yield curve is likely to move upwards during 2019 for both the USA and the euro area. While the US dollar curve is expected to remain extremely flat, the euro curve is likely to be steeper.

On the basis of these global economic conditions, demand for exports from Germany and Europe, and for associated financing, is likely to be stable. The low interest rate environment will continue well into 2019, such that high liquidity will continue to dominate the lending market. Combined with the ongoing pressure to invest facing institutional investors, this will create even more intense competition. In 2019 KfW IPEX-Bank will continue to focus on working with its market partners on a close and trusting basis. Through this active collaboration, its objective is to structure tailor-made syndicate financing to jointly provide the export and investment projects of German and European industry with the best possible support.

In 2019 KfW IPEX-Bank intends to reinforce its position as a dependable specialist bank and strong partner to key industries that are vital to the German and European economies. The predicted development of sales markets in industrialised and emerging countries offers continued export opportunities. KfW IPEX-Bank will therefore continue in its role of supporting German and European companies in 2019, 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.

KfW IPEX-Bank has established its position in the market through its proven structuring expertise, which makes it a leading specialist financier. The bank is maintaining its sales and marketing activities at a high level across all sector departments and regions. It is selectively adding to its product portfolio, which is expected to help build on existing customer relationships and tap into new customers and customer groups for financing transactions in the business sector. The bank will continue to set high standards of environmental and social responsibility for the projects it finances, many of which – as in previous years – are expected to have a direct positive impact on environmental and climate protection. Based on continued intense competition and a portfolio management strategy geared towards quality, KfW IPEX-Bank's targets for the 2019 financial year are new commitments of EUR 16.6 billion, earnings before tax of EUR 138 million and a CIR of 52.8%. Rising net interest income is expected due to the growth in new business and disbursements from contracted financing. Net commission income is expected to fall slightly short of the level budgeted during prior year planning. Administrative expense will remain virtually constant. Standard risk costs are expected to be slightly below the level of the previous year. The planned CET1 capital ratio of 19.7% is above the capital requirements and is also met in the stress case scenario. The funding plan indicates that the bank's liquidity is adequately ensured through the refinancing agreement with KfW. The targets presented are subject to the customary forecasting uncertainty arising from the unpredictability of major factors that influence the course of the bank's business. This uncertainty also applies to the forecast result for 2019, which will depend, as in previous years, on the level of risk provisions required for our conservative benchmarks.

As part of the implementation of the profit transfer agreement, KfW IPEX-Bank transfers its entire profit under German commercial law for the 2018 financial year to KfW Beteiligungsholding GmbH. A decision will subsequently be made on the basis of the bank's multi-annual capital planning as to whether KfW IPEX-Bank's capital base will be strengthened by reinvesting parts of the transferred profits in the form of a shareholder contribution or by means of other appropriate capital measures.

Financial Statements, Notes, Auditor's Report

Country-by-country reporting as per Section 26a of the German Banking Act

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

Corporate Governance Report

Financial Statements of KfW IPEX-Bank 2018

Balance Sheet of KfW IPEX-Bank as of 31 December 2018

Assets

	31 Dec. 2018				31 Dec. 2017			
	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			6				8	
b) funds with central banks			0				0	
of which: with the Deutsche Bundesbank	*0*				*0*			
c) funds held with postal giro offices			0	**6**			0	**8**
2. Loans and advances to banks								
a) mortgage loans			0				0	
b) municipal loans			153,501				62,508	
c) other loans and advances			1,086,564	**1,240,065**			789,867	**852,375**
of which: due on demand	*1,385*				*1,135*			
of which: collateralised by securities	*0*				*0*			
3. Loans and advances to customers								
a) mortgage loans			761,117				671,360	
b) municipal loans			926,308				1,162,665	
c) other loans and advances			22,157,956	**23,845,381**			20,171,956	**22,005,981**
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		1,635,190	1,635,190			2,094,787	2,094,787	
of which: eligible as collateral with the Deutsche Bundesbank	*1,539,006*				*2,003,053*			
c) own bonds			0	**1,635,190**			0	**2,094,787**
Nominal value	0				0			
5. Investments				**43,611**				**68,717**
of which: in banks	360				360			
of which: in financial services institutions	*0*				*0*			
6. Assets held in trust				**368,673**				**234,299**
of which: loans held in trust	*368,480*				*233,671*			
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			258				308	
c) goodwill			0				0	
d) payments on account			0	**258**			0	**308**
8. Property, plant and equipment				**410**				**314**
9. Other assets				**120,507**				**120,275**
10. Prepaid expenses and deferred charges								
a) from issuing and lending			331				604	
b) other			14,462	**14,793**			13,364	**13,968**
Total assets				**27,268,894**				**25,391,032**

Liabilities and equity

	31 Dec. 2018				31 Dec. 2017			
	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			999,750				1,027,413	
c) other liabilities			20,483,921	**21,483,671**			18,929,513	**19,956,926**
of which: due on demand	*224,022*				*261,079*			
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			195,219	**195,219**			231,636	**231,636**
of which: due on demand	*4,221*				*5,579*			
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				**368,673**				**234,299**
of which: loans held in trust	*368,480*				*233,671*			
4. Other liabilities				**251,688**				**116,905**
5. Deferred income								
a) from issuing and lending			3,126				4,350	
b) other			16,173	**19,299**			16,436	**20,786**
6. Provisions								
a) provisions for pensions and similar commitments			179,903				148,003	
b) tax provisions			4,580				4,920	
c) other provisions			60,494	**244,977**			82,330	**235,253**
7. Subordinated liabilities				**436,681**				**416,910**
8. Fund for general banking risks				**339,013**				**323,664**
9. Equity								
a) called capital								
subscribed capital		2,100,000				2,100,000		
less uncalled outstanding contributions		0	2,100,000			0	2,100,000	
b) capital reserves			1,405,224				1,330,204	
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	**3,929,673**			0	**3,854,653**
Total liabilities and equity				**27,268,894**				**25,391,032**
1. Contingent liabilities								
a) from the endorsement of rediscounted bills		0				0		
b) from guarantees and guarantee agreements		1,606,919				1,553,667		
c) assets pledged as collateral on behalf of third parties		0	1,606,919			0	1,553,667	
2. Other obligations								
a) commitments deriving from non-genuine repurchase agreements		0				0		
b) placing and underwriting commitments		0				0		
c) irrevocable loan commitments		8,422,620	8,422,620			6,324,722	6,324,722	

Income Statement of KfW IPEX-Bank GmbH from 1 January 2018 to 31 December 2018

Expenses

	1 Jan.–31 Dec. 2018				1 Jan.–31 Dec. 2017			
	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			451,210				395,461	
less positive interest from banking business			–8,205	**443,005**			–7,302	**388,159**
2. Commission expense				**2,160**				**3,575**
3. Administrative expense								
a) personnel expense								
aa) wages and salaries		75,638				72,934		
ab) social insurance contributions, expense for pension provision and other employee benefits		34,809	110,447			26,245	99,179	
of which: for pension provision	*26,273*				*18,011*			
b) other administrative expense			133,692	**244,139**			134,853	**234,032**
4. Depreciation and impairment on intangible assets and property, plant and equipment				**159**				**175**
5. Other operating expenses				**23,055**				**71,269**
6. Write-downs of and value adjustments on loans and specific securities and increase in loan loss provisions				**0**				**63,083**
7. Appropriations to the fund for general banking risks				**15,349**				**0**
8. Write-downs of and value adjustments on investments, shares in affiliated companies and securities treated as fixed assets				**17,563**				**15,306**
9. Taxes on income				**–216**				**–310**
10. Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement				**238,375**				**113,261**
11. Net income for the year				**0**				**0**
Total expenses				**983,589**				**888,550**

Income

	1 Jan.–31 Dec. 2018				1 Jan.–31 Dec. 2017			
	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		738,140				680,272		
less negative interest from lending and money market transactions		–2,837	735,303			–186	680,086	
b) fixed-income securities and debt register claims		232				3,100		
less negative interest from fixed-income securities and debt register claims		–701	–469	**734,834**		–1,271	1,829	**681,915**
2. Current income from								
a) shares and other non-fixed income securities			0				0	
b) investments			151				9	
c) shares in affiliated companies			0	**151**			0	**9**
3. Commission income				**170,010**				**153,290**
4. Income from write-ups on loans and specific securities and from reversal of loan loss provisions				**12,941**				**0**
5. Withdrawals from the fund for general banking risks				**0**				**44,584**
6. Other operating income				**65,653**				**8,752**
Total income				**983,589**				**888,550**

Notes

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

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

Accounting and valuation regulations

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

Cash reserves, loans and advances to banks and customers and other assets are recognised at cost, par or at a lower fair value. Differences between par values and lower amounts disbursed for loans and advances that have interest-like characteristics are included in deferred income and are recognised through the income statement under net interest income on a straight-line basis over their loan term.

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

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

There are no held-for-trading securities.

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

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

Property, plant and equipment and intangible assets are reported at acquisition or production cost as defined by Section 255 of the German Commercial Code, reduced by ordinary depreciation/amortisation over their expected useful life. Additions and disposals of fixed assets during the course of the year are depreciated pro rata temporis (i.e. on an exact monthly basis). A compound item is set up for low-value fixed assets with purchase costs of EUR 250 to EUR 1,000, which is released to the income statement on a straight-line basis over the year of acquisition and the next four 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 '2018 G Mortality and Disability Tables'. In 2018, HEUBECK AG published new mortality and disability tables for the valuation of provisions for pension commitments. These include new estimates and thus take into account the latest trends in the probabilities of mortality, disability, marriage and employee turnover. KfW IPEX-Bank has based its calculation of provisions for pension commitments on the balance sheet as of 31 December 2018 on these new mortality and disability tables. Application of the new tables has had no material impact on the level of provisions.

In addition, the following actuarial assumptions have been used as a basis for the calculation:

	31 Dec. 2018
	in % p. a.
Interest rate for accounting purposes	3.21
Projected unit credit dynamics	2.20
Index-linking of pensions[1]	1.00 to 2.50
Staff turnover rate	4.50

[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 administrative expense. The interest effect resulting from subsequent valuation is reported under net interest income and its amount is disclosed in the notes.

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.

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, 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. 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 through the recognition of loan loss provisions. 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).

The bank recognises portfolio loan loss provisions for foreseeable but not yet individually substantiated counterparty default risks in the lending business in the amount of the expected 12-month loss or, if there is a significant deterioration in default risk in comparison to the date of initial recognition, in the amount of the credit loss expected over the residual term of the exposure.

Additions and reversals are reported net under the item 'Write-downs of and value 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.

The valuation of interest rate-related transactions in the banking book (*Refinanzierungsverbund*) reflects KfW IPEX-Bank's interest rate risk management. The principle of prudence as required under the German Commercial Code is taken into account by establishing a provision in accordance with Section 340a (1) in conjunction with Section 249 (1) sentence 1, 2nd alternative of the Code for any excess obligations resulting from the valuation of the interest-related banking book. The requirements set forth in the statement of the Banking Panel of Experts of the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland – IDW) on the loss-free valuation of the banking book (BFA 3) are taken into account. In order to determine any excess obligation, KfW IPEX-Bank calculates the balance of all discounted future net income of the banking book. Together with net interest income, this includes relevant 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, 2018 once again saw negative interest rates on the money and capital markets. Disclosure requirements for the income statement under German commercial law include separate disclosure of negative interest under net interest income – in the form of new items or a breakdown of existing items – wherever these rates have a material impact.

The analysis performed for KfW IPEX-Bank found that in 2018 amounts with a material impact occurred in connection with liabilities-side promissory note loans, money market transactions and interest-bearing securities, and in relation to prepayment fees in the lending business.

With effect from the 2018 financial year, profit shares in relation to the silent partner contribution of KfW ceased to be reported under interest expenses. Instead, these are now reported under the item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement'. The previous year's figures have not been adjusted.

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

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

Group affiliation

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

Notes on assets

Loans and advances to banks and customers

Remaining term structure of loans and advances

	Due on demand	Maturity with agreed term or period of notice				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks[1]	137,468	57,165	578,581	371,549	73,275	22,027	1,240,065
(as of 31 Dec. 2017)	*54,651*	*282,442*	*354,253*	*126,922*	*23,365*	*10,742*	*852,375*
Loans and advances to customers	0	1,047,702	2,619,972	10,866,634	9,200,294	110,779	23,845,381
(as of 31 Dec. 2017)	*0*	*914,530*	*2,284,982*	*10,179,793*	*8,534,684*	*91,992*	*22,005,981*
Total	**137,468**	**1,104,867**	**3,198,553**	**11,238,183**	**9,273,569**	**132,806**	**25,085,446**
(as of 31 Dec. 2017)	*54,651*	*1,196,972*	*2,639,235*	*10,306,715*	*8,558,049*	*102,734*	*22,858,356*
in %	**1**	**4**	**13**	**45**	**37**	**0**	**100**

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

of which to:	Loans and advances to Banks	Loans and advances to Customers	Total
	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	**0**
Affiliated companies	153,501	12	**153,513**
Companies in which KfW IPEX-Bank holds a stake	1	0	**1**
Subordinated assets	0	6,904	**6,904**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2018	31 Dec. 2017
	EUR in thousands	EUR in thousands
Listed securities	1,635,190	2,094,787
Unlisted securities	0	0
Marketable securities	**1,635,190**	**2,094,787**

The 'Bonds and other fixed-income securities' item totalling EUR 1,635 million (previous year: EUR 2,095 million) contains a portfolio of high-quality and highly liquid KfW securities (HQLA portfolio) in the amount of EUR 1,539 million (previous year: EUR 2,003 million), with KfW as an affiliated company. The portfolio includes securities amounting to EUR 162 million (previous year: EUR 463 million) which fall due during the year following the balance sheet date.

The HQLA portfolio is assigned to current assets and is hedged by means of asset swaps. 'Loss peaks' arising from fluctuations in the bonds and their associated asset swaps have a direct impact on the income statement. Other securities (EUR 0.1 billion) are assigned to fixed assets.

Fixed assets

	Change 2018[1] EUR in thousands	Residual book value 31 Dec. 2018 EUR in thousands	Residual book value 31 Dec. 2017 EUR in thousands
Investments	–14,364	54,354	68,717
Bonds and other fixed-income securities	4,450	96,183	91,734
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*0*	*0*	*0*
Total	**–9,914**	**150,537**	**160,451**

[1] Including exchange rate changes

	Purchase/ production costs EUR in thousands	Additions EUR in thousands	Disposals EUR in thousands	Transfers EUR in thousands	Purchase/ production costs as of 31 Dec. 2018 EUR in thousands	Cumulative depreciation/impairment as of 1 Jan. 2018 EUR in thousands
Intangible assets	431	0	0	0	431	123
Property, plant and equipment[2]	856	210	248	0	818	542
Sum	**1,286**	**210**	**248**	**0**	**1,249**	**665**
Total						

	Depreciation/ impairment 2018	Write-ups	Cumulative depreciation/ impairment in the financial year			Cumulative depreciation/ impairment as of 31 Dec. 2018	Residual book value 31 Dec. 2018	Residual book value 31 Dec. 2017
			Additions	Disposals	Transfers			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	49	0	0	0	0	172	259	307
Property, plant and equipment[2]	110	0	13	244	0	408	410	314
Sum	**159**	**0**	**13**	**244**	**0**	**580**	**669**	**621**
Total							**151,206**	**161,073**

[2] Of which: as of 31 Dec. 2018: – 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. The book value of these securities amounts to EUR 96 million. Writedowns of EUR 3 million were avoided as of the balance sheet date.

Disclosures on shareholdings

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

	Company name and headquarters	Capital share	Equity	Net income for the year
		in %	USD in thousands	USD in thousands
1.	Sperber Rail Holdings Inc., Wilmington, USA[1)]	100.0	145	–4,642
2.	Bussard Air Leasing Ltd. i.L., Dublin, Ireland[2)]	100.0	–2,152	0
3.	Canas Leasing Ltd. i.L., Dublin, Ireland[2)]	50.0	0	0

1) Figures available as of 31 Dec. 2017 only.
2) Figures available as of 31 Dec. 2016 only.

Assets held in trust

	31 Dec. 2018	31 Dec. 2017	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	38	93,367	–93,329
Loans and advances to customers	368,442	140,305	228,137
Shares	193	627	–434
Total	**368,673**	**234,299**	**134,374**

In addition to assets held in trust of EUR 369 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 23.0 billion (previous year: EUR 23.1 billion) on behalf of KfW as an indirect agent.

Other assets

Other assets totalling EUR 121 million (previous year: EUR 120 million) primarily include the balancing item for the foreign currency translation of derivative hedges amounting to EUR 93 million, receivables from KfW Beteiligungsholding GmbH arising from excess payment – prior to the formation of the CIT fiscal unity – of capital gains tax and the solidarity surcharge to the tax authorities of EUR 18 million, as well as receivables from the tax authorities arising from tax advances and tax refund claims amounting to EUR 2 million (previous year: EUR 2 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 15 million (previous year: EUR 14 million) include in particular upfront interest payments from swaps amounting to EUR 14 million (previous year: EUR 13 million).

Notes on liabilities and equity

Liabilities to banks and customers

Maturities structure of liabilities

	Due on demand	Maturity with agreed term or period of notice				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	224,022	2,960,110	3,911,162	8,891,561	5,413,326	83,490	21,483,671
(as of 31 Dec. 2017)	*261,079*	*2,346,730*	*3,492,032*	*9,474,673*	*4,293,953*	*88,459*	*19,956,926*
Liabilities to customers – other liabilities	4,221	179,608	0	0	0	11,390	195,219
(as of 31 Dec. 2017)	*5,579*	*168,929*	*486*	*10,627*	*40,378*	*5,637*	*231,636*
Total	**228,243**	**3,139,718**	**3,911,162**	**8,891,561**	**5,413,326**	**94,880**	**21,678,890**
(as of 31 Dec. 2017)	*266,658*	*2,515,659*	*3,492,518*	*9,485,300*	*4,334,331*	*94,096*	*20,188,562*
in %	**1**	**15**	**18**	**41**	**25**	**0**	**100**

	Liabilities to		Total
	Banks	Customers	
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	0
Affiliated companies	21,378,572	0	21,378,572
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. 2018	31 Dec. 2017
		EUR in millions	EUR in millions
Public Pfandbriefe in issue		**997**	**1,025**
Cover assets		1,048	1,135
Loans and advances to customers		0	0
a) mortgage loans		*375*	*529*
b) municipal loans		*673*	*606*
c) other loans and advances		*150*	*260*
Bonds and other fixed-income securities			
Cover assets total		**1,198**	**1,395**
Over-collateralisation	**absolute value**	**201**	**370**
	in %	**20**	**36**

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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Total value of Pfandbriefe in issue including derivatives	997	1,025	1,014	1,036	1,117	917
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Total value of cover pools including derivatives	1,198	1,395	1,257	1,467	1,348	1,323
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Over-collateralisation absolute value	**201**	**370**	**243**	**431**	**230**	**407**
in %	**20**	**36**	**24**	**42**	**21**	**44**

[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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
up to 6 months	0	167	59	68
more than 6 to 12 months	0	0	58	63
more than 12 to 18 months	0	0	209	165
more than 18 months to 2 years	75	83	59	75
more than 2 to 3 years	50	75	118	281
more than 3 to 4 years	237	50	104	131
more than 4 to 5 years	206	233	124	117
more than 5 to 10 years	428	417	304	381
more than 10 years	0	0	164	114

Section 28 (1) No 9 of the German Pfandbrief Act	31 Dec. 2018	31 Dec. 2017
	in %	in %
Proportion of fixed-rate		
– cover pool	*21*	*35*
– Pfandbriefe	*40*	*31*

Section 28 (1) No 10 of the German Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Net present value	
	31 Dec. 2018	31 Dec. 2017
	EUR in millions	EUR in millions
AUD	23	22
USD	–24	95

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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	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. 2018	31 Dec. 2017
	EUR in millions	EUR in millions
up to EUR 10 million	7	9
more than EUR 10 million to EUR 100 million	132	226
more than EUR 100 million	1,059	1,160
Total	**1,198**	**1,395**

	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. 2018		31 Dec. 2017		31 Dec. 2018		31 Dec. 2017		31 Dec. 2018		31 Dec. 2017	
	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	505	0	784	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	3	0	5	0	0	0	0	0	0	0	0
Total	**0**	**508**	**0**	**789**	**0**	**0**	**0**	**0**	**0**	**40**	**0**	**40**

	Other debtors				Total		thereof: guarantees provided to promote export finance	
	31 Dec. 2018		31 Dec. 2017		31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	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	246	0	361	0	790	1.185	505	784
Denmark	0	296	0	116	296	116	296	116
Finland	0	108	0	89	109	89	109	89
Austria	0	0	0	0	3	5	3	5
Total	**246**	**404**	**361**	**205**	**1,198**	**1,395**	**913**	**994**

[1] Owed
[2] Guaranteed

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. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	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. 2018	31 Dec. 2017	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	0	0	0
Liabilities to customers	368,673	234,299	134,374
Total	**368,673**	**234,299**	**134,374**

Other liabilities

Other liabilities totalling EUR 252 million (previous year: EUR 117 million) mainly consist of the liability to KfW Beteiligungsholding GmbH resulting from the existing profit transfer agreement of EUR 220 million.

Deferred income

Deferred income totalling EUR 19 million (previous year: EUR 21 million) mainly comprises discounts from upfront interest payments from swaps that have been received but do not yet impact income of EUR 16 million (previous year: EUR 16 million) and discounts from receivables purchases totalling EUR 3 million (previous year: EUR 4 million).

Provisions

In addition to provisions for pensions and similar commitments totalling EUR 180 million (previous year: EUR 148 million) and tax provisions amounting to EUR 5 million (previous year: EUR 5 million), other provisions of EUR 60 million (previous year: EUR 82 million) were recognised as of 31 December 2018. These other provisions relate in particular to liabilities to staff (EUR 24 million), provisions for credit risks (EUR 18 million) and archiving costs (EUR 9 million). It was possible to reverse EUR 9 million of provisions that had been recognised for the repayment of processing fees pursuant to the ruling by the German Federal Court of Justice (*Bundesgerichthof – BGH*) in July 2017 (previous year: EUR 11 million), due to the limitation period for claims lapsing. The remaining provision thus amounts to just EUR 2 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 39 million as of 31 December 2018.

Subordinated liabilities

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

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

Interest payments are made quarterly. KfW IPEX-Bank is not obliged to repay any of the subordinated loan ahead of schedule.
Interest expense for subordinated loans in 2018 amounted to the equivalent of EUR 15 million (previous year: EUR 18 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. 2018	31 Dec. 2017	Change
	EUR in millions	EUR in millions	EUR in millions
Power, Renewables and Water	593	676	–83
Aviation, Mobility & Transport[1]	344	261	83
Industries and Services	210	196	14
Financial Institutions, Trade & Commodity Finance	158	120	38
Infrastructure[2]	145	125	20
Basic Industries	111	113	–2
Maritime Industries	46	63	–17
Equity Portfolio	0	0	0
Total	**1,607**	**1,554**	**53**

[1] During 2018 the sector department ‘Aviation and Rail’ was renamed to ‘Aviation, Mobility & Transport’.
[2] During 2018 the sector department ‘Transport und Social Infrastructure’ was renamed to ‘Infrastructure’.

New guarantees given in financial year 2018 amounted to EUR 172 million. In contrast, a total of EUR 119 million was redeemed.

Irrevocable loan commitments

Sector department	31 Dec. 2018	31 Dec. 2017	Change
	EUR in millions	EUR in millions	EUR in millions
Basic Industries	1,980	1,096	884
Power, Renewables and Water	1,746	1,722	24
Maritime Industries	1,212	1,155	57
Infrastructure[1]	1,055	469	586
Aviation, Mobility & Transport[2]	1,029	788	241
Industries and Services	832	711	121
Financial Institutions, Trade and Commodity Finance	569	384	185
Equity Portfolio	0	0	0
Total	**8,423**	**6,325**	**1,214**

[1] During 2018 the sector department 'Transport und Social Infrastructure' was renamed to 'Infrastructure'.
[2] During 2018 the sector department 'Aviation and Rail' was renamed to 'Aviation, Mobility & Transport'

Total irrevocable loan commitments as of 31 December 2018 stood at EUR 8,423 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 2018, income from Frankfurt am Main and London was as follows:

	31 Dec. 2018			31 Dec. 2017		
	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	725,626	9,208	734,834	669,787	12,128	681,915
Current income from						
a) shares and other non-fixed-income securities	0	0	0	0	0	0
b) investments	151	0	151	9	0	9
c) shares in affiliated companies	0	0	0	0	0	0
Commission income	169,966	44	170,010	153,149	141	153,290
Other operating income	61,274	4,379	65,653	1,188	7,564	8,752
Total	**957,017**	**13,631**	**970,648**	**824,133**	**19,833**	**843,966**

Interest expense and interest income

Valuation of provisions led to interest expense from compounding of EUR 6,731 thousand (previous year: EUR 7,064 thousand) and interest income from discounting of EUR 249 thousand (previous year: EUR 391 thousand).

In 2018 negative interest amounts arose to a significant extent in connection with liabilities-side promissory note loans in the amount of EUR 5,340 thousand (previous year: EUR 4,357 thousand) and interest-bearing securities in the amount of EUR 701 thousand (previous year: EUR 1,271 thousand). Furthermore, negative interest amounts arose in connection with money market transactions – EUR 2,865 thousand (previous year: EUR 2,945 thousand) from call money and term borrowings and EUR 709 thousand (previous year: EUR 186 thousand) from call money and term lending – and also, for the first time, in connection with prepayment fees for prematurely terminated loan agreements in the amount of EUR 2,128 thousand.

Other operating expense

Other operating expense amounted to EUR 23 million (previous year: EUR 71 million). This primarily includes realised and unrealised exchange losses from foreign currency valuation totalling EUR 21 million (previous year: EUR 49 million).

Other operating income

Other operating income of EUR 66 million (previous year: EUR 9 million) chiefly relates to realised and unrealised exchange gains from foreign currency valuation totalling EUR 36 million (previous year: EUR 3 million), income from the reversal of provisions no longer required of EUR 27 million (previous year: EUR 4 million) and income from services provided to group companies totalling EUR 2 million (previous year: EUR 2 million).

Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement

	31 Dec. 2018	31 Dec. 2017
	EUR in millions	EUR in millions
Annual profit to be transferred due to the profit transfer agreement concluded with KfW Beteiligungsholding GmbH	220	113
Profit sharing for the KfW silent partner contribution[1]	18	0
Total	**238**	**113**

[1] Change in reporting as of 31 December 2018

Appropriation of profit

As part of the implementation of the existing profit transfer agreement, the annual profit (EUR 220 million) is transferred to KfW Beteiligungsholding GmbH, subject to approval of the financial statements by the general shareholders' meeting. In this respect, a separate proposal or resolution regarding the appropriation of profit is not required.

Other required disclosures

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency as well as cash transactions that were not settled by the balance sheet date were converted into euros at the average spot exchange rates applicable as of 31 December 2018.

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 2018, 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 16.2 billion (previous year: EUR 14.8 billion), of which EUR 14.9 billion related to loans and advances to customers.

Total liabilities denominated in foreign currency amounted to EUR 16.2 billion (previous year: EUR 14.8 billion), of which the majority (EUR 10.9 billion) related to liabilities to banks.

Other financial liabilities

Total call obligations arising in connection with equity finance transactions added up to EUR 4 million (previous year: EUR 4 million).

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

Auditor's fee

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

Valuation units

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

	Nominal value		Carrying amount		Fair value	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liquidity reserve						
Bonds and other fixed-income securities	1,535	1,995	1,539	2,003	1,548	2,016
Total	**1,535**	**1,995**	**1,539**	**2,003**	**1,548**	**2,016**

KfW IPEX-Bank uses derivatives only to hedge open positions. The option to account for economic hedges in the form of valuation units on the balance sheet 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 the 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 2018, there was a positive present value.

Derivatives reporting

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

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

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

In the following table, the calculation of market values for all contract types is based on the market valuation method. It discloses the positive and negative fair values of derivative positions as of 31 December 2018.

Derivative transactions – volumes

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2018
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	25,014	23,886	666	730
Swaptions	0	0	0	0
Caps/floors	489	110	6	6
Total	**25,503**	**23,996**	**672**	**736**
Contracts with foreign exchange risks				
Cross-currency swaps	1,127	1,189	74	7
FX swaps	3,833	2,865	19	9
FX forward transactions	125	126	1	1
Total	**5,085**	**4,180**	**94**	**17**
Share and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**30,588**	**28,176**	**765**	**753**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks		Credit derivatives	
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
– up to 3 months	520	709	3,215	2,317	0	0
– more than 3 months to 1 year	1,147	1,396	806	747	0	0
– more than 1 year to 5 years	10,612	9,654	950	974	0	0
– more than 5 years	13,224	12,237	114	142	0	0
Total	**25,503**	**23,996**	**5,085**	**4,180**	**0**	**0**

Derivative transactions – counterparties

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2018
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	20,666	18,882	193	681
Non-OECD banks	0	0	0	0
Other counterparties	9,808	8,684	559	72
Public sector	114	610	13	0
Total	**30,588**	**28,176**	**765**	**753**

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 22,135 million as of 31 December 2018 (previous year: EUR 18,611 million). In addition, financial guarantees amounting to EUR 213 million (previous year: EUR 162 million) were administered.

	31 Dec. 2018	31 Dec. 2017	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	8,549	6,324	2,225
Trust business	10,245	9,618	627
Other[1]	3,341	2,669	672
Total	**22,135**	**18,611**	**3,524**

[1] Including refinancing for CIRR ship financings by third-party banks totalling EUR 3,047 million (previous year: EUR 2,488 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 2018.

	2018	2017	Change
Female employees	331	313	18
Male employees	362	363	–1
Staff not covered by collective agreements	559	556	3
Staff covered by collective agreements	134	120	14
Total	**693**	**676**	**17**

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

Total remuneration paid to active members of the Management Board in financial year 2018 was EUR 1,939 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[2)]	Other remuneration[3)]	Total
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Klaus R. Michalak (CEO)	406	92	15	513
Markus Scheer	406	76	25	506
Claudia Schneider	406	13	7	426
Andreas Ufer	406	55	33	494
Total	**1,623**	**236**	**80**	**1,939**

[1)] Differences may occur in the table due to rounding.
[2)] Variable remuneration relates to work performed as a member of the Management Board.
[3)] 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 125 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 Secretaries Machnig, Dr Kukies and Dr Nussbaum also waived their remuneration and attendance fees.

Deferred performance-based bonuses in relation to previous years in the amount of EUR 88 thousand and retirement pension payments totalling EUR 398 thousand were paid to former members of the Management Board in the 2018 financial year. As of 31 December 2018, provisions for pensions for former members of the Management Board and their surviving dependents stood at a total of EUR 12,785 thousand.

As of 31 December 2018, there were no loans outstanding to members of the Management Board or the Board of Supervisory Directors.

Seats on statutory supervisory bodies of large corporations (Section 267 (3) of the German Commercial Code) held by legal representatives or other employees

Thomas Brehler, head of department
Member of the Advisory Board of STEAG Energy Services GmbH, Essen (since 1 April 2018)

Subsequent events

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

Board of Supervisory Directors

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

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

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

Dieter Koch
(KfW IPEX-Bank employee representative, Project Manager)

Dagmar P. Kollmann
(Businesswoman and Supervisory Board member)

Dr Jörg Kukies
(State Secretary, Federal Ministry of Finance)
from 16 August 2018

Dr Ulrich Nußbaum
(State Secretary, Federal Ministry for Economic Affairs and Energy)
from 29 May 2018

Matthias Machnig
(State Secretary, Federal Ministry for Economic Affairs and Energy)
up to 13 April 2018

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

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

Dr Ludger Schuknecht
(Head of Directorate, Federal Ministry of Finance)
up to 15 August 2018

Management Board

Klaus R. Michalak
(CEO)

Andreas Ufer

Markus Scheer

Claudia Schneider

Frankfurt am Main, 19 February 2019

Klaus R. Michalak **Andreas Ufer**

Markus Scheer **Claudia Schneider**

Auditor's Report

Independent auditor's report[1)]

To KfW IPEX-Bank GmbH

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of KfW IPEX-Bank GmbH, which comprise the balance sheet as at 31 December 2018, and the income statement for the financial year from 1 January 2018 to 31 December 2018, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of KfW IPEX-Bank GmbH for the financial year from 1 January 2018 to 31 December 2018. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sec. 289f (4) HGB ['*Handelsgesetzbuch*': German Commercial Code] (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,
– the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Institution as at 31 December 2018 and of its financial performance for the financial year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and
– the accompanying management report as a whole provides an appropriate view of the Institution's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as 'EU Audit Regulation') and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the 'Auditor's responsibilities for the audit of the annual financial statements and of the management report' section of our auditor's report. We are independent of the Institution in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

1. Valuation of the Maritime Industries loan portfolio

Reasons why the matter was determined to be a key audit matter

The valuation of loan portfolios and the resulting estimate of any necessary specific loan loss provisions constitutes a significant area of management judgement. The identification of impaired loans and the determination of value in use or the recoverable net proceeds involve uncertainty and entail various assumptions and influencing factors, namely the financial position of the borrower, expectations of future cash flows, observable market prices and expectations of net sale prices. Minimal changes in the assumptions can lead to great variation in values.

During the course of our audit, the valuation of the Maritime Industries loan portfolio within the customer loan portfolio was

[1)] Translation of the independent auditors' report issued in German language on the annual financial statements and the management report prepared in German language by the Management Board of KfW IPEX-Bank, Frankfurt am Main. The German language statements are decisive.

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

Auditor's response
We assessed the design and operating effectiveness of the internal control system with regard to the key accounting-related lending processes. In doing so, we focused on the processes for calculating impairments, including the inputs used.

We also performed substantive procedures on a sample basis, assessing specific loan loss provisions in terms of necessity and adequacy in a test of details. We selected our sample using a risk-based approach, notably using criteria such as the management of loans on watch lists for potential and acute default risks, rating class, the level of net exposure and specific loan loss provisions recognised.

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

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

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

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

Reference to related disclosures
The Institution's disclosures on the valuation of the loan portfolios (including Maritime Industries) are contained in the 'Accounting and valuation regulations' section of the notes and also in the 'Measurement of counterparty default risk' section of the management report accompanying the annual financial statements.

2. Appropriateness of the criteria used to determine a significant increase in credit risk in connection with the calculation of portfolio loan loss provisions

Reasons why the matter was determined to be a key audit matter
With effect from 1 January 2018, the Management Board of KfW IPEX-Bank GmbH changed the valuation method used to calculate portfolio loan loss provisions. These are now calculated based on the changes in credit quality since initial recognition, either at an amount equal to the 12-month expected loss or, if there has been significant increase in credit risk since initial recognition, at the amount equal to the expected lifetime loss. Judgement is used to define the criteria for identifying whether there has been a significant increase in credit risk since initial recognition.

In light of the change in the valuation method and the judgement used to define the criteria for identifying whether there has been a significant increase in credit risk since initial recognition, we consider the appropriateness of these criteria to be a key audit matter.

Auditor's response
To audit the criteria for determining a significant increase in credit risk, we assessed the design of the assessment of the significance of an increase in credit risk and the significant assumptions used therein.

We assessed the design and operating effectiveness of the internal control system as it relates to determining a significant increase in credit risk. In doing so, we focused particularly on the procedures and controls in place for loan origination (determination of the original credit risk) and for loan monitoring (determination of the current credit risk).
We performed substantive analytical procedures based on a data excerpt from the portfolio of loans not subject to specific loan loss provisions, assessing the original credit risk of the loans not subject to specific loan loss provisions for significant deviations from the lending standards. In addition, we obtained an understanding of whether there had been a significant increase in credit risk since initial recognition by referring to quantitative and qualitative criteria. In risk-based samples, we

assessed significant anomalies, in particular in view of the significance of the increase in credit risk.

Our procedures did not lead to any reservations concerning the appropriateness of the criteria for determining a significant increase in credit risk in connection with the calculation of portfolio loan loss provisions.

Reference to related disclosures
The Institution's disclosures on the calculation of portfolio loan loss provisions are contained in the 'Accounting and valuation regulations' section of the notes and also in the 'Risk provisions and valuations' section of the management report accompanying the annual financial statements.

Other information
According to Art. 10 of the Articles of Association of IPEX, the Board of Supervisory Directors is responsible for the annual report of the Board of Supervisory Directors. In accordance with Art. 16 of the Articles of Association of KfW IPEX-Bank GmbH, the Management Board and the Board of Supervisory Directors are required to annually declare that they recognise the Public Corporate Governance Code, detailing any recommendations that have not been applied and the reasons for this, and to publish the declaration of compliance as part of the Corporate Governance Report. In all other respects, the Management Board is responsible for the other information. The other information that we obtained prior to completion of our audit comprises the following:

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

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
– otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management Board and the Board of Supervisory Directors for the annual financial statements and the management report
The Management Board is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles. In addition, the Management Board is responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Management Board is responsible for assessing the Institution's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the Management Board is responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Institution's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Board of Supervisory Directors is responsible for overseeing the Institution's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report
Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Institution's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of

future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (*IDW*) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Institution.
– Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
– Conclude on the appropriateness of the Management Boards' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institution to cease to be able to continue as a going concern.
– Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Institution in compliance with German legally required accounting principles.
– Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Institution's position it provides.
– Perform audit procedures on the prospective information presented by the Management Board in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the general shareholders' meeting on 13 February 2018. We were engaged by the Board of Supervisory Directors on 25 April 2018. We have been the auditor of KfW IPEX-Bank GmbH without interruption since financial year 2017.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided the following services that are not disclosed in the annual financial statements or in the management report:

– Audit of investment services in accordance with Sec. 89 (1) WpHG ['*Wertpapierhandelsgesetz*': German Securities Trading Act]
– Agreed-upon procedures with regard to the calculation of contributions pursuant to Arts. 10 and 14 of the Articles of the deposit guarantee fund of the VÖB ['*Bundesverband Öffentlicher Banken Deutschlands e.V.*': Association of German Public Banks]
– Review of the schedule of deductions to accompany IPEX's application to BaFin ['*Bundesanstalt für Finanzdienstleistungsaufsicht*': German Federal Financial Supervisory Authority] pursuant to Sec. 16j (2) Sentence 2 FinDAG ['*Finanzdienstleistungsaufsichtsgesetz*' German Financial Services Supervision Act]
– Review of the report pursuant to Sec. 53 HGrG ['*Haushaltsgrundsätzegesetz*': German Law on Budgetary Principles] regarding remuneration paid to the members of the Board of Supervisory Directors and the Management Board as well as to managerial staff at IPEX.

German Public Auditor responsible for the engagement
The German Public Auditor responsible for the engagement is Matthias Koch.

Eschborn/Frankfurt am Main, 5 March 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Dombek
Wirtschaftsprüferin
[German Public Auditor]

Koch
Wirtschaftsprüfer
[German Public Auditor]

Country-by-country reporting as per Section 26a of the German Banking Act

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

Such reporting involves disclosure of the following necessary information:

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

Turnover has been defined as the operating result before risk provisions and administrative expenses.

The disclosures were made on the basis of the individual financial statements of KfW IPEX-Bank prepared in accordance with the German Commercial Code (*Handels-gesetzbuch – HGB*) as of 31 December 2018[1].

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	498.33	593	234.96	–0.67	0.00
UK	KfW IPEX-Bank GmbH	Export and project finance	London	11.41	20	3.20	0.46	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 German Banking Act.

As of 31 December 2018, the return on assets within the meaning of Section 26a (1) sentence 4 of the Act is 0.0081 or 0.81 %[2].

[1] Consolidated financial statements are not prepared. KfW IPEX-Bank GmbH is included in the consolidated financial statements of KfW Group, Frankfurt am Main.
[2] The net profit is the annual profit that the company intends to transfer under the profit transfer agreement with KfW Beteiligungsholding GmbH.

Corporate Governance Report

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

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

Declaration of compliance

The Management Board and the Board of Supervisory Directors of KfW IPEX-Bank hereby declare: 'Since the last Declaration of Compliance submitted in March 2018, 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 deviations.'

D&O insurance deductible

KfW has concluded D&O insurance in the form of a group insurance policy which also provides insurance cover for members of the Management Board and the Board of Supervisory Directors of KfW IPEX-Bank. During the reporting period, in deviation from Clause 3.3.2 of the PCGC, these D&O insurance policies only provided for a deductible for members of the Management Board. This deductible complies with the provisions of Clause 3.3.2 of the PCGC.

Delegation to committees

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

Loans to members of bodies

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

Design of the Management Board's remuneration system

In derogation of clauses 4.3.1 and 5.1.8 of the PCGC, remuneration for members of management is determined by the general shareholders' meeting after consultation with the Board of Supervisory Directors, in accordance with Section 5 (1) sentence 2 of the Articles of Association, rather than set by the supervisory body itself.

Allocation of responsibilities

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

Cooperation between the Management Board and the Board of Supervisory Directors

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

During the reporting year, the Management Board informed the Board of Supervisory Directors in detail 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, IT, Products and Corporate Affairs including Compliance (CEO and CFO)
- Mr Andreas Ufer: Markets II and Treasury
- Mr Markus Scheer: Markets I
- Ms Claudia Schneider: 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 Prof. Dr Joachim Nagel, this requirement is met. During the reporting year and as of 31 December 2018, the Board of Supervisory Directors included one female representative.

In accordance with the Rules of Procedure for the Board of Supervisory Directors and its Committees, adapted to the requirements of Section 25d (3) of the German Banking Act (*Kreditwesengesetz – KWG*), the members of the Board of Supervisory Directors may not include anyone who is on the management board of a company and also a member of more than two companies' administrative or supervisory bodies, or who is a member of more than four companies' administrative or supervisory bodies. However, pursuant to Section 64r (14) of the Banking Act, this rule does not apply to mandates for administrative and supervisory bodies already held by members of the Board of Supervisory Directors as at 31 December 2013. This 'grandfather clause' applies to two members of the Board of Supervisory Directors. In addition, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) may authorise a member of an administrative or supervisory body to assume an additional mandate. One member of the Board of Supervisory Directors has received such authorisation for an additional mandate. Members of the Board of Supervisory Directors should also not serve in an administrative, supervisory or consulting role for any significant competitors of the company. The members of the Board of Supervisory Directors complied with these recommendations during the reporting period. Conflicts of interest should be disclosed to the Board of Supervisory Directors. Where loans were submitted to the Loan Committee for approval, there was one case in which members abstained from the vote in order to avoid a conflict of interest. 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. It takes final decisions on all loan-related matters for which the Management Board requires the approval of the Board of Supervisory Directors pursuant to the Articles of Association and/or Rules of Procedure for the Members of the Management Board.

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

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

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

Shareholder

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

Supervision

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

Protection of deposits

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

Transparency

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

Risk management

Risk management and risk controlling are key responsibilities within the integrated risk/return management at KfW IPEX-Bank. Using the risk strategy, the Management Board defines the framework for the bank's business activities regarding risk tolerance and risk-bearing capacity. This ensures that KfW IPEX-Bank can fulfil its particular responsibilities with an appropriate risk profile in a sustainable, long-term manner. The bank's overall risk situation is analysed and documented comprehensively in monthly risk reports to the Management Board as well as by internal committees that meet on a regular basis, and decisions are taken on risk-related measures. The Board of Supervisory Directors is updated regularly on the bank's risk situation; it is provided with written reports on a monthly basis and with detailed information during meetings that take place on a quarterly basis.

Compliance

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

Accounting and annual audit
On 13 February 2018, the general shareholders' meeting of KfW IPEX-Bank appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2018 financial year. The Board of Supervisory Directors had already issued the audit engagement to Ernst & Young on 1 December 2017, subject to it being appointed by the general shareholders' meeting, and determined the audit priorities with Ernst & Young on 25 October 2017. 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 2018 on the basis of structured questionnaires. The overall outcome of the assessment was a score of 1.4. 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 2018 and will be completed in the first quarter of 2019.

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 and further relevant legal provisions into account.

Components of remuneration
The remuneration of the Management Board consists of a fixed, annual base salary and a variable, performance-based bonus. All contracts are in accordance with Section 25a (5) of the German Banking Act in conjunction with the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – IVV*). The establishment of the variable, performance-based bonus component is based on an agreement regarding targets that is concluded with the Management Board by the shareholder – after consultation with the Board of Supervisory Directors – at the beginning of each year. This agreement includes financial, quantitative and qualitative targets for both the Group and the bank, targets specific to the areas of responsibility for each member of the Management Board, and also personal targets. In the subsequent years, in line with currently applicable legal requirements, the performance-based bonus, which is calculated according to the achievement of targets, is either paid out immediately – on a pro rata basis – or deferred. Deferred remuneration components are tracked by means of a 'bonus account'. These components are paid out on a pro rata basis over a holding period that is set in accordance with currently applicable legal requirements, provided that the legal requirements in this regard have been met. Beyond this holding period, it is possible for claims for deferred remuneration components to be reduced, up to and including their complete elimination, depending upon the bank's financial performance or as a result of any misconduct.

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

	2018 EUR in thousands	2017 EUR in thousands	Change EUR in thousands
Members of the Management Board	1,939	1,946	–7
Members of the Board of Supervisory Directors	207	224	–17
Total	**2,146**	**2,169**	**–24**

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

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

The 'value' of the sustainability component of this variable remuneration may also increase or decrease over the course of the payment period. Depending on the bank's performance, both the cash and sustainability components may be cancelled in their entirety.

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

Annual remuneration paid to active members of the Management Board and additions to pension provisions during 2018 and 2017 in EUR thousands[1)]

	Salary		Variable remuneration		Other remuneration[3)]		Total		Bonus account[4)]		Additions to pension provisions	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands
Klaus R. Michalak (CEO)	406	402	92	74	15	15	513	491	307	276	288	278
Markus Scheer	406	402	76	75	25	23	506	501	236	217	641	418
Claudia Schneider[2)]	406	312	13	-	7	4	426	316	143	66	334	95
Andreas Ufer	406	402	55	37	33	32	494	471	227	187	481	256
Total	**1,623**	**1,518**	**236**	**186**	**80**	**74**	**1,939**	**1,779**	**914**	**746**	**1,744**	**1,047**

1) Rounding differences may occur in the table for computational reasons.
2) Appointed to the Management Board of KfW IPEX-Bank GmbH as of 17 March 2017.
3) This remuneration is presented in analogy with the figures stated in the Notes in accordance with Section 285 (9) of the German Commercial Code excluding employer benefits according to the German Social Insurance Act (*Sozialversicherungsgesetz*). These totalled EUR 52 thousand in 2018 (previous year: EUR 50 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 2018. In this financial year bonus components due for payment and carried forward were paid out partly with a reduction due to insufficient sustainable performance of KfW IPEX-Bank. There were no deductions for penalties.

Responsibilities

The shareholder consults on the remuneration system for the Management Board, including its contractual elements, and reviews it regularly. It approves the remuneration system after consulting with the Board of Supervisory Directors. The most recent review of the system's appropriateness took place on 15 June 2018.

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. There is a deductible of 10% in relation to D&O insurance policies for the members of the Management Board. Members of the Management Board of KfW IPEX-Bank acting in their management capacity are also protected by a special group legal expenses insurance policy for employees that covers criminal defence, which was taken out by KfW.

Other remuneration does not include remuneration received for the exercise of corporate mandates held and sideline activities performed by a member of the Management Board outside the Group with the approval of the competent bodies of KfW IPEX-Bank. The entire amount of such remuneration is considered personal income of members of the Management Board. In 2018, 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 2018 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 2018.

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. One board member who was first appointed as a member of the Management Board prior to 2014 may, at his/her request, retire early when he/she reaches 63 years of age. Members of the Management Board are also entitled to retirement pension payments if their employment ends due to ongoing disability.

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

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

In principle, the maximum retirement pension entitlement for members of the Management Board equals 49% of the most recent gross salaries paid. In one case the entitlement amounts to 55%. 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 398 thousand were made in the 2018 financial year (previous year: EUR 174 thousand).

In addition, deferred performance-based bonuses totalling EUR 88 thousand (previous year: EUR 29 thousand) were paid to former members of the Management Board. As of 31 December 2018, further deferred bonus components of EUR 73 thousand remained in the bonus account (previous year: EUR 15 thousand).

Provisions for pension obligations for former members of the Management Board and their surviving dependents totalled EUR 12,785 thousand as of the end of the 2018 financial year (previous year: EUR 11,821 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. The remuneration scheme was clarified by a shareholder resolution on 14 April 2018. According to its provisions, and unchanged from the previous year, the net annual remuneration for a member of the Board of Supervisory Directors is EUR 22,000, and the net annual remuneration for the Chairman is EUR 28,600.

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

In addition, the members of the Board of Supervisory Directors receive a net fee of EUR 1,000 for each meeting of the Board of Supervisory Directors or of one of its committees that they attend. Members of the Board of Supervisory Directors can also claim, to a reasonable extent, reimbursement for travel and other miscellaneous expenses that they have incurred in the performance of their duties.

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

Details regarding the remuneration of the Board of Supervisory Directors during the 2018 and 2017 financial years are listed in the following tables; travel expenses and other miscellaneous expenses were reimbursed based upon receipts and are not included in this table.

Remuneration paid to members of the Board of Supervisory Directors for 2018 in EUR

Member	Dates of service	Annual net remuneration	Attendance fees[1]	Total
Prof. Dr Nagel[2]	1 Jan. – 31 Dec.	–	–	–
Dr Peiß[2]	1 Jan. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Dr Schuknecht[3]	1 Jan. – 15 Aug.	14,667.00	11,000.00	25,667.00
State Secretary Machnig[2]	1 Jan. – 13 Apr.	–	–	–
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	13,000.00	35,000.00
Mr Gasten	1 Jan. – 31 Dec.	22,000.00	12,000.00	34,000.00
Mr Knittel	1 Jan. – 31 Dec.	22,000.00	19,000.00	41,000.00
Mr Koch	1 Jan. – 31 Dec.	22,000.00	10,000.00	32,000.00
State Secretary Dr Nußbaum[2]	29 May – 31 Dec.	0.00	–	–
State Secretary Dr Kukies[2]	16 Aug. – 31 Dec.	0.00	–	–
Total		**124,667.00**	**82,000.00**	**206,667.00**

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

Remuneration paid to members of the Board of Supervisory Directors for 2017 in EUR

Member	Dates of service	Annual net remuneration	Attendance fees[1]	Total
Dr Kloppenburg	1 Jan. – 25 Oct.	–	–	–
Prof. Dr Nagel	25 Oct. – 31 Dec.	–	–	–
Dr Peiß	1 Jan. – 31 Dec.	–	–	–
State Secretary Machnig[2]	1 Jan. – 31 Dec.	–	–	–
Dr Schuknecht[3]	1 Jan. – 31 Dec.	22,000.00	16,000.00	38,000.00
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	14,000.00	36,000.00
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Mr Gasten	1 Jan. – 31 Dec.	22,000.00	13,000.00	35,000.00
Mr Knittel	22 Mar. – 31 Dec.	18,335.00	13,000.00	31,335.00
Mr Koch	22 Mar. – 31 Dec.	18,335.00	8,000.00	26,335.00
Dr Marschhausen	1 Jan. – 22 Mar.	5,500.00	5,000.00	10,550.00
Mr Weigmann	1 Jan. – 22 Mar.	5,500.00	2,000.00	7,500.00
Total		**135,670.00**	**88,000.00**	**223,670.00**

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

The indicated amounts are net values and were all paid for the reporting year.

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

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

No direct loans were extended to members of the Board of Supervisory Directors during the reporting year. The members of the Board of Supervisory Directors are covered by two insurance policies for the risks associated with their board activities. The first provides liability insurance for monetary damages (D&O insurance) and the second offers supplemental legal protection for monetary damages. Both policies are group insurance policies of KfW. A deductible has not been agreed at present. Members of the Board of Supervisory Directors of KfW IPEX-Bank acting in their capacity as such are also protected by a special group legal expenses insurance policy for employees that covers criminal defence, which was taken out by KfW.

Frankfurt, March 2019

Management Board **Board of Supervisory Directors**

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