Management Report and Financial Statements 2020

KfW IPEX-Bank

2020

Key figures

Volume of lending of the Export and Project Finance business sector

Volume of lending of the business sector[1)] by sector department	2020
	EUR in billions
Power, Renewables and Water	14.6
Maritime Industries	13.5
Aviation, Mobility & Transport	9.9
Resources and Recycling	8.9
Industries and Services	8.8
Infrastructure	8.6
Financial Institutions, Trade and Commodity Finance	3.3
Total	**67.5**

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

KfW IPEX-Bank GmbH key figures

	2020	2019
	EUR in billions	EUR in billions
Balance sheet key figures		
Total assets	28.1	26.0
Volume of lending	38.1	36.2
Contingent liabilities	2.2	2.0
Irrevocable loan commitments	8.8	9.1
Assets held in trust	0.4	0.4
Volume of business (total assets, contingent liabilities and irrevocable loan commitments)	39.1	37.1
Equity	4.2	4.1
Equity ratio (%)	14.8	15.7
Results	EUR in millions	EUR in millions
Operating income before risk provisions/valuations	243	277
Risk provisions and valuations	–225	–85
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	–48	–185
Result of the Export and Project Finance business sector (segment report, consolidated financial statements of KfW Group)	99	499
Number of employees (including Management Board)	**837**	**745**

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.

Letter from the Management Board

Dear Readers,

For KfW IPEX-Bank, as for others, 2020 was largely dominated by coronavirus.

To protect against the spread of infection, many countries ordered restrictions on travel and business activities, closures of schools and childcare facilities and other similar measures. Contact between people was significantly reduced overall, which impacted demand for certain goods and services, such as air travel.

KfW IPEX-Bank maintained its own business operations throughout 2020, tackling the knock-on effects in partnership and dialogue

with our existing customers from very early on. Our business is driven by investment decisions and a consequent need for credit, so coronavirus had different effects depending on the industry and region of our customers. Some economies started feeling the effects quite early in the year, others not until later. Whereas economic output in a number of Asian countries had already picked up by the end of 2020, many countries, to this day, are still struggling hugely with the economic fallout of the virus. The picture is similarly diverse in the various sectors in which we operate. The aviation and cruise industries have been hit extremely hard. Some sectors have been less severely affected, while others are even experiencing a spike in demand – including the digital economy, which is benefiting from a partial shift of social and business communication into the virtual sphere.

In concert with our customers, we designed tailor-made solutions. For example, we provided large, creditworthy companies with the liquidity they needed by granting new loans and restructuring existing exposures. We provided fast support, based on justifiable banking criteria, to a number of existing customers through tailored deferral solutions. This also included our participation in the joint initiative of the governments of Germany, France, Italy and Finland to defer loans for the entire cruise industry.

Overall, we proved ourselves to be a reliable partner to our customers, as testified by EUR 16.6 billion in new commitments that we provided in export and project finance for the benefit of the German and European economies. Although below the record volume posted in 2019 (EUR 22.1 billion) due to the challenges set out above, it compares well with the average in previous years.

We achieved this in no small measure through our focus on future technologies, providing some EUR 800 million to finance projects for fibre optic, broadband and mobile network expansion and the construction of modern, energy-efficient data centres. The still very high level of environmental awareness in large parts of the world is reflected – as in previous years – by our extensive involvement in financing environmental and climate change mitigation measures. Through this important contribution to growth, prosperity and employment, as well as to the energy transition, we are helping to ensure a liveable, sustainable future. This is clearly demonstrated by new commitments from the Power and Environment sector department totalling EUR 2.8 billion, an amount that highlights our mission to support the energy sector's transition and to develop country-specific solutions in dialogue with customers and business partners. In addition to expanding our portfolio of renewable energy projects, we will also continue supporting conventional energy projects in order to balance seasonally fluctuating and weather-dependent technologies and to ensure security of supply.

The knock-on effects of the coronavirus pandemic also posed internal challenges for us. As soon as it became clear that the pandemic would have far-reaching consequences for the global economy, we analysed our loan portfolio and initiated measures to manage and de-risk it. Through these actions, and despite a much higher risk provisioning requirement, we achieved a small but satisfactory annual profit.This all goes to show that 2020 was a very challenging and busy year of work for our employees – alongside the challenges posed by coronavirus in their private lives, such as childcare, home schooling and caring for elderly relatives.

We would therefore like to express our particular thanks to our staff, both in Germany and abroad. The commitment, team spirit, solidarity and expertise of our employees were important factors in positioning KfW IPEX-Bank as a provider of solutions and a competence centre, even in difficult times. Tremendous solidarity was also evident within KfW Group, which we experienced, for example, in the form of support from functions we

Klaus R. Michalak

Andreas Ufer

Claudia Schneider

Markus Scheer

outsourced to KfW. And we, too, played our part in KfW's special coronavirus support programme by lending staff and taking over rating calculations for large companies on behalf of KfW. One more reason we are so proud of the past year is that, even in the 'new normal', we fulfilled our mission of supporting German and European companies involved in the export economy on global markets.

In 2021, we want to continue consolidating our position as a specialist bank for structuring sophisticated export and project finance – in part via placements with risk partners, such as institutional investors and insurance companies – and as a partner to the German and European economies. Despite the shock waves emanating from the coronavirus crisis, the anticipated growth in sales markets in industrialised and emerging countries still offers export opportunities for our customers. In order to assist these customers, we will continue to play our role, both this year and beyond, of supporting German and European companies in their international activities through tailored medium and long-term financing for exports and foreign investments. KfW IPEX-Bank is selectively adding to its product portfolio and has expanded its representative office in Singapore into a subsidiary with a merchant banking licence. These steps should help deepen existing customer relationships and onboard new customers and customer groups for KfW IPEX-Bank financings.

Despite the challenges and uncertainties that lie ahead, we are confident and enthusiastic about the new financial year and look forward to working with you in 2021.

Wishing you continued health.

Klaus R. Michalak **Andreas Ufer**

Markus Scheer **Claudia Schneider**

Report of the Board of Supervisory Directors 2020

KfW IPEX-Bank is responsible for export and project finance within KfW Group. As of the end of December 2020, more than 800 employees worked at the bank's headquarters in Frankfurt and ten locations outside Germany.

In many respects, 2020 was an exceptional year. COVID-19 reached Germany as early as February, and our bank, like all others, suddenly found itself in crisis mode because of the coronavirus pandemic. Due to mandatory legal restrictions on travel and contact, as well as the nationwide lockdown, digitalisation came even more to the fore across all areas of life. The options have been expanded so that, in light of the situation, employees can increasingly work flexibly from home, in order to keep the risk of infection as low as possible and to do equal justice to family and work. Even meetings of the Board of Supervisory Directors – previously held without exception as face-to-face events – were organised virtually.

In 2020, the Board of Supervisory Directors continued to comprehensively carry out its duties of monitoring and advising the Management Board and cooperating closely with the same. It was informed by the Management Board of all significant developments at the bank in a timely, proactive and comprehensive manner, and was involved, in line with its supervisory function, in all decisions of major importance for the bank. In addition, the Chairs of the Supervisory Board and the Audit Committee, as well as the Management Board discussed important topics and pending decisions in regular meetings.

Meetings of the Board of Supervisory Directors

In accordance with its Rules of Procedure, the Board of Supervisory Directors continued in 2020 to hold an ordinary meeting each quarter, and also took part in an extraordinary conference call convened by the Management Board. It was provided with regular updates from the Management Board on the bank's current state in terms of results, the risk situation and business development. It received relevant risk and performance reports, as well as interim financial statements, and discussed these at length. Two investigations opened by the public prosecutor's office were also discussed in detail during the meetings. With the start of the pandemic, in addition to the regular reports the Board of Supervisory Directors also received regular overviews of the effects of the lockdown on the current business situation, as well as ad hoc information. Where required, the Board of Supervisory Directors granted its approval in relevant cases, following extensive consultation and review.

The Board of Supervisory Directors was supported in its duties by five committees, each consisting of four members of the Board of Supervisory Directors. In accordance with their respective areas of responsibility, these committees examined current issues in depth, prepared recommendations 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 four 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 systems for members of the Management Board and for employees and the compatibility of these systems with the corporate strategy, which is geared towards the company's sustainable development, and made a recommendation in this regard to the Board of Supervisory Directors, which will be put to the shareholder. In addition 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. Four committee meetings took place during 2020.

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 by senior management. During its meetings, risk reports and risk-specific developments in selected portfolios were discussed in detail. It ensured that the strategies of KfW IPEX-Bank are commensurate with the company's specified risk appetite. In addition, 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 and of the probability and due dates of income.. The committee met four times during the reporting year.

The **Audit Committee** deals primarily with accounting matters and monitors the underlying process. Another core responsibility is to closely monitor the performance of audits by the auditor and to oversee the swift resolution of any findings identified by the auditor. The committee recommended that the Board of Supervisory Directors approve the annual financial statements as of 31 December 2019 and the 2019 management report. The Audit Committee also received detailed reports on the resolution status of audit findings and current supervisory assessments. In this connection the Audit Committee also dealt with the further development of the organisational structure of the Internal Auditing department. 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 as well as the compliance report. It held five meetings during 2020.

The **Loan Committee** is responsible for final loan approval. In 2020, it took decisions on a total of four loan applications at the appropriate authorisation level and passed an anticipatory resolution on employee loans for the 2021 calendar year. The committee met four times during the reporting period.

No conflict of interest was disclosed in any loan decision by a member of the committee.

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 2020, KfW IPEX-Bank offered the Board of Supervisory Directors and the Management Board two training sessions, one on the topic of bank supervisory law and one workshop on the subject of IT.

Changes to the Board of Supervisory Directors

There were two changes to the composition of the Board of Supervisory Directors and its committees in 2020: Dr Ingrid Hengster was appointed as a member of the Board of Supervisory Directors in place of resigned chair Dr Joachim Nagel and was elected as the new chair by the remaining members on 1 November. Furthermore, on 1 October Timm Rometzki, as a substitute member elected by employees as employee representative, took over the mandate of Norbert Gasten, who retired and consequently resigned from the Board of Supervisory Directors.

Audit of the 2020 annual financial statements

Following completion of the audit and after conducting a final review of the annual financial statements as of 31 December 2020 and of the 2020 management report, the Board of Supervisory Directors approved the audit result, the annual financial statements and the management report at its first ordinary meeting of 2021, 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 2020 that were prepared by the Management Board as of 16 February 2021, and the management report for the 2020 financial year. EY issued an unqualified audit opinion on 2 March 2021.

The Board of Supervisory Directors would like to expressly thank the Management Board and all employees for their hard work during the 2020 financial year in an exceptionally challenging environment. The COVID-19 pandemic and the measures adopted to contain it have taken a toll on all employees, and this situation continues unabated. Many have switched to working from home on short notice or have worked on-site while taking high precautions. Many have had to master new challenges in their private lives in addition to their professional challenges. In light of this entire situation especially, the commitment and the achievements that our staff showed and made are particularly commendable! We would like to express our heartfelt thanks to all our employees.

They jointly proved themselves capable – even in what was, for everyone, an unusual year with extreme operating conditions – of fully fulfilling KfW IPEX-Bank's mission of supporting German and European export companies on the world's markets.

Frankfurt am Main, March 2021

On behalf of the Board of Supervisory Directors

Dr Ingrid Hengster
Chair of the Board of Supervisory Directors

Management Report

Economic Report

Review of 2020

General economic conditions

Against the backdrop of the COVID-19 pandemic, global real GDP decreased by 3.5% in 2020 compared with 2019, according to IMF estimates (see Table 1: Gross domestic product at constant prices [year-on-year change in %]). This is the deepest global recession since World War II, according to the World Bank's Global Economic Prospects report published in January 2021, which expects per capita GDP to fall in more than 90% of emerging and developing countries. During 2020, both global industrial production and global merchandise exports recorded their lowest value in the second quarter, followed by a recovery in the third quarter (see Table 2: Industrial production and trade [Index Q4 2019 = 100]). In contrast to previous recessions, service sectors reliant on personal contact have been hit harder than manufacturing, according to the IMF's analysis in the October edition of its World Economic Outlook 2020.

Table 1: Gross domestic product at constant prices (year-on-year change in %)

	2019	Estimate 2020
Global economy	2.8	–3.5

Note: The IMF aggregates annual growth rates in gross domestic product of individual countries at constant prices based on shares of the country-specific gross domestic product, valued at purchasing power parity, in the corresponding global aggregate for the growth rate in global real gross domestic product.
Source: IMF (2021), World Economic Outlook Update, Policy Support and Vaccines Expected to Lift Activity, January 2021

Table 2: Industrial production and trade (index Q4 2019 = 100)

	Q1 2020	Q2 2020	Q3 2020	October/ November 2020
Volume of global industrial production	96	89	98	101
Volume of global goods exports	99	86	98	100

Note: In constant 2010-USD, seasonally adjusted
Source: Calculations by KfW Research based on data from the Global Economic Monitor, The World Bank, https://datacatalog.worldbank.org/dataset/global-economic-monitor, accessed: 20 January 2021

The COVID-19 pandemic and the measures taken to contain it also affected economic development in the member states of the European Economic and Monetary Union (EMU) last year. Measured by real GDP, economic output in EMU states fell by 6.8% year-on-year in 2020, after having risen by 1.3% in 2019.[1)] This was the sharpest downturn in real GDP since the EMU was founded in 1999 (see Table 3: Gross domestic product at constant prices, year-on-year change in %). However, EMU member states experienced different levels of recession, with real GDP contracting more strongly in France, Italy and Spain than in Germany.[2)]

The European Commission attributes this to differences in national mitigation measures, economic policy tools and the importance of particularly affected sectors, such as tourism.[3)]

[1)] Eurostat, Preliminary flash estimate for the fourth quarter of 2020, GDP down by 0.7% in the euro area and by 0.5% in the EU, press release dated 2 February 2021
[2)] National statistics offices: Destatis, Insee, ISTAT, INE
[3)] EU Commission forecast, November 2020, https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en_2.pdf, p. 9, accessed: 3 December 2020

Table 3: Gross domestic product at constant prices, year-on-year change in %

	2019	2020	Average 2010–2019	Minimum since 1999 (year)
Euro area	1.3	–6.8	1.4	–4.5 % (2009)
Germany	0.6	–5.0	1.9	–5.7 % (2009)

Source: Eurostat, Table: 'GDP and main components', accessed: 3 February 2021, average calculated as the geometric mean of annual growth rates

Against the backdrop of the COVID-19 pandemic, Germany's real GDP contracted by 5.0% year-on-year in 2020, after growing by 0.6% in 2019 and by an average of 1.9% annually over the previous ten years from 2010 to 2019 inclusive (see Table 3). Positive impetus for the rate of change in real GDP in 2020 came solely from real-terms government consumption (+3.4%) and real-terms construction investment (+1.5%). In contrast, there were falls, in real terms, in private consumption (–6.0%), in the number of people in employment in Germany (–1.1%) and in investments in equipment (–12.5%) and other facilities (–1.1%). Domestic use of GDP contracted by 4.1% overall in real terms during 2020. Net exports curbed the change in real GDP by 1.1 percentage points in 2020, with the decline in real exports (–9.9%) outpacing that in real imports (–8.6%). On the output side, the rate of change in real GDP in 2020 was slowed in particular by the decline in real gross value added in manufacturing excluding the construction sector (–9.7%), in trade, transport and hotels and restaurants (-6.3%), in business services (–7.9%) and in other service providers (–11.3%).

Sources:

– Federal Statistical Office, Specialist series 18, Series 1.1, National accounts, Calculation of domestic product – First annual results, 14 January 2021, Tables 1.12, 2.2, 3.2 and 3.10

– Federal Statistical Office, Gross domestic product in the fourth quarter of 2020 up 0.1% on the previous quarter, press release dated 29 January 2021

Business development in 2020

KfW IPEX-Bank is responsible for export and project finance within KfW Group. It supports German and European companies operating in key industrial sectors in global markets by structuring medium and long-term financing for their exports, funding infrastructure investments, securing raw materials supply and financing environmental protection and climate change mitigation projects worldwide. This activity is derived from KfW's statutory mission, which is set out in Article 2 of the Law Concerning KfW (*KfW-Gesetz)*.

The spread of COVID-19 exposed all countries and their economies to unexpected challenges during the reporting period, with many companies opting to proceed with utmost caution in the face of uncertainty. The impact on the global economy was felt throughout 2020, although individual economies, particularly in the Asian region, have recently returned to strong growth. Economic growth was also affected by the United Kingdom's exit from the EU and the negotiations on its future relationship with the EU, which lasted until the end of 2020, as well as the outcome of the US presidential election – yet the dominant topic remained the spread of COVID-19.

Demand for capital goods financed by KfW IPEX-Bank reacted accordingly. Countries that were particularly hard hit showed a marked reluctance to invest, although certain suppliers of COVID-19-related health products and products in demand during lockdown outperformed the market. However, thanks to its focus on future technologies, KfW IPEX-Bank's operations counteracted the general trend and were stable.

The need for cruise ship and aircraft financing declined sharply, and financing for commodity projects was deferred or less in demand in 2020. Conversely, financing of infrastructure projects, particularly in digital infrastructure and rail-based transport, saw greater demand. Overall, KfW IPEX-Bank concentrated on supporting long-standing customers and on structuring financing backed by good collateral. In most cases, KfW IPEX-Bank acted as a partner in club or syndicate financing arrangements with other national and international banks. Despite these challenges, KfW IPEX-Bank provided financing totalling EUR 16.6 billion in 2020, which, seen against earlier years (2019: EUR 22.1 billion, 2018: EUR 17.7 billion), attests to the stability of its business model.

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 2020, supporting German and European exporters in markets around the world. Of its new commitments, EUR 15.9 billion (2019: EUR 18.6 billion) related to original lending business and EUR 0.7 billion (2019: EUR 3.5 billion) to funds for bank refinancing under CIRR ship and ERP export financing programmes. In this respect KfW IPEX-Bank acts indirectly on behalf of the Federal Republic. Of its total commitments, EUR 13.8 billion were attributable to KfW IPEX-Bank's market business, while EUR 2.8 billion constituted trust business performed on behalf of and for the account of KfW (including CIRR).

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.

Overview of results of operations, net assets and financial position

Significant developments

KfW IPEX-Bank's operating income before risk provisions and valuations totalled EUR 243 million in the 2020 financial year. This represented a decrease of EUR 34 million (–12%) on the previous year's result. The bank contributes to a fund for general banking risks, which serves to strengthen its tier 1 capital. The fund also helps to stabilise solvency ratios against exchange rate fluctuations resulting from the portion of the loan portfolio denominated in US dollars. The fund is part of special cover pursuant to Section 340h of the German Commercial Code (*Handelsgesetzbuch – HGB*), and valuation effects resulting from this are an economic component of the bank's foreign exchange results, which are generally reported under the item 'Other operating income and expenses'. The valuation effect attributable to the fund for general banking risks (+EUR 29 million in 2020) is shown in the separate item 'Withdrawals from/ appropriations to the fund for general banking risks pursuant to Section 340g of the German Commercial Code'. KfW IPEX-Bank made no other adjustments to the fund through appropriations or withdrawals. If this effect is taken into account, adjusted operating income before risk provisions and valuations, at EUR 272 million, is the same as in the previous year.

After deducting the risk provision and valuation result (EUR –225 million), the bank generated a pre-tax profit of EUR 47 million. This was EUR 138 million lower year-on-year (–75%), mainly due to the risk provision result in lending business (EUR –224 million), which has been dominated by the crisis triggered by the spread of COVID-19 since the first quarter of 2020.

Of operating income before risk provisions and valuations, EUR 333 million related to net interest income and EUR 185 million to net commission income. Net interest income rose by EUR 21 million (+7%) year-on-year due to higher earnings contributions from lending business. Net commission income, on the other hand, fell by EUR 16 million (–8%), driven by the lower remuneration paid by KfW to KfW IPEX-Bank for administering the E&P trust business. Administrative expense amounted to EUR 229 million, up EUR 2 million (+1%) on the previous year. Other operating income and expenses of EUR –46 million included EUR –31 million from the foreign exchange result. As described above, the valuation effect (EUR +29 million) attributable to the fund for general banking risks pursuant to Section 340g of the German Commercial Code must be added to this as an economic component. This leaves a net currency translation loss of EUR –2 million. In addition, other operating income and expenses primarily include the valuation effect (EUR –20 million) from staff pension commitments. This resulted from the drop of –41 basis points in the discount rate compared with the previous year (effect of changes in interest rates).

Risk provisions and valuations (EUR –225 million) comprise the risk provision result in lending business (EUR –224 million) and valuations from securities and investments (EUR –1 million). The risk provision result in lending business reflects the additional need for specific and general loan loss provisions, primarily in connection with the COVID-19 crisis. Overall, the result from risk provisions and valuations increased by EUR 140 million (>100%) year-on-year.

This leaves operating income before taxes of EUR 18 million. After taking into account withdrawals from the fund for general banking risks in accordance with Section 340g of the German Commercial Code due to changes in exchange rates (EUR +29 million), profit from operating activities before taxes was EUR 47 million.

Due to the corporate income tax (CIT) fiscal unity that has existed between KfW IPEX-Bank and KfW Beteiligungsholding GmbH since the 2016 financial year, taxes on income are generally incurred at the level of KfW Beteiligungsholding GmbH as the controlling company (wholly owned subsidiary of KfW and sole shareholder of KfW IPEX-Bank). Taxes on income in 2020 mainly include income from the reversal of a provision created for the 2014/2015 financial years. Other taxes include, for the first time, expenses for creating a provision in connection with KfW IPEX-Bank's US lending business. This tax provision results from registration and tax return obligations in various US states based on respective local tax laws.

The item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement' includes KfW's profit share for the silent partner contribution (EUR 18 million) and the annual profit of KfW IPEX-Bank (EUR 30 million). The latter was transferred in full to the controlling company on the basis of the profit transfer agreement concluded in the context of the CIT fiscal unity.

Total assets were EUR 28.1 billion, a year-on-year increase of EUR 2.1 billion (+8%). Loans and advances to banks and customers accounted for by far the largest share of assets on the balance sheet (EUR 27.2 billion or 97%). At EUR 27.1 billion, the item increased by EUR 2.1 billion (+8%) year-on-year and is almost wholly attributable to the bank's lending business. New transactions in market business came to EUR 13.8 billion, EUR 1.7 billion (+14%) higher than the target, leading to an increase in total assets in the amount of the disbursements made. EUR 10.5 billion of the loan portfolio (39%) is denominated in US dollars. In addition to repayments, depreciation of the US dollar (-8%) compared with the 2019 year-end rate also helped to offset the increase in total assets. On the liabilities side, the increase in total assets is mainly reflected in liabilities to banks and customers, which grew in total by EUR 2.2 billion (+11%) to EUR 22.9 billion. Equity was EUR 4.2 billion on the balance sheet date, a year-on-year increase of EUR 0.1 billion. This change was entirely due to the partial reinvestment - to the extent permitted for tax purposes - in the bank's capital reserve of the 2019 profits transferred to KfW Beteiligungsholding GmbH under the profit transfer agreement.

In addition to total assets, the volume of business (EUR 39.1 billion) also includes irrevocable loan commitments (EUR 8.8 billion) and financial guarantees (EUR 2.2 billion). It also exceeded the previous year's figure (EUR +1.9 billion or +5%).

KfW IPEX-Bank's regulatory own funds totalled EUR 4.5 billion as of 31 December 2020. On this basis, the capital ratios were as follows: total capital ratio = 21.9 % (previous year: 25.2%), tier 1 capital ratio = 17.5% (previous year: 20.7%) and CET1 capital ratio = 16.5% (previous year: 19.0%). The CET1 capital ratio was therefore below the previous year's forecast of 17.0%.

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

Individual items in detail:

Results of operations

	1 Jan. – 31 Dec. 2020	1 Jan. – 31 Dec. 2019	Change	
	EUR in millions	EUR in millions	EUR in millions	%
Net interest income[1]	333	311	21	7
Net commission income	185	201	–16	–8
General administrative expense	–229	–227	2	1
Other operating income and expenses	–46	–8	–38	<–100
Operating income before risk provisions/valuations	**243**	**277**	**–34**	**–12**
Valuations from securities and investments	–1	–13	–12	–92
Risk provision result in lending business	–224	–72	152	>100
Risk provisions and valuations, total	**–225**	**–85**	**140**	**>100**
Operating income before taxes	**18**	**192**	**–174**	**–91**
Withdrawals from/additions to the fund for general banking risks as per Section 340g of the German Commercial Code (HGB)	29	–7	36	>100
Profit/loss from operating activities before taxes	**47**	**185**	**–138**	**–75**
Taxes on income	4	0	–4	–
Other taxes not stated under other operating income and expense	–3	0	3	–
Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement	–48	–185	–138	–74
Net income for the year	**0**	**0**	**0**	**–**

[1] Including current income from investments

Operating income before risk provisions and valuations was EUR 243 million, a decrease of EUR 34 million (–12%) compared with the previous year. Net interest income and net commission income, which are key income components, accounted for a total of EUR 518 million of this amount. This was offset by administrative expenses (EUR 229 million) and other operating income and expenses (EUR –46 million). The result from risk provisions and valuations (EUR –225 million) comprises valuations from securities and investments (EUR –1 million) and the risk provision result in lending business (EUR –224 million). After taking into account withdrawals from the fund for general banking risks (EUR +29 million) to adjust for the depreciation of the US dollar (–8%) compared with 31 December 2019, profit from operating activities before taxes came to EUR 47 million. This was down EUR 138 million (–75%) compared with the 2019 financial year, primarily due to additional risk provisioning requirements in lending business.

Net interest income and net commission income

KfW IPEX-Bank generated net interest income and net commission income totalling EUR 518 million in the 2020 financial year. This amount comprised net interest income of EUR 333 million and net commission income of EUR 185 million. The contribution to earnings therefore represented an overall increase of EUR 6 million (+1%) on the actual figure for the previous year. Whereas net interest income increased by EUR 21 million (+7%) due to higher earnings contributions from the lending business, net commission income was EUR 16 million (–8%) below the comparable figure, driven by the lower remuneration paid by KfW to KfW IPEX-Bank for administering the E&P trust business. This is a commission-based fee calculated on the volume of lending handled and subject to minimum and maximum remuneration to cover costs. The lower remuneration reflects the shift of costs from trust business to market business. This is also reflected in new commitments: the majority of new commitments (EUR 16.6 billion including CIRR) in the 2020 financial year came from the bank's market business (EUR 13.8 billion).

Net interest income of EUR 333 million comprised interest income including income from investments totalling EUR 571 million, of which EUR 537 million related to interest income in connection with the bank's lending business and money market transactions. It also included interest-like income in the form of commitment fees for loans not yet disbursed of EUR 31 million. Bonds and other fixed-income securities contributed EUR 2 million towards the result. Interest income was offset by interest expenses amounting to EUR 238 million, most of which is attributable to ongoing funding of the bank (EUR 199 million). There were additional expenses, mainly from interest rate, foreign exchange and cross-currency swaps (EUR 32 million).

Net commission income (EUR 185 million) included commission income of EUR 189 million. Income mainly included remuneration paid by KfW to KfW IPEX-Bank for administering the E&P trust business (EUR 90 million) and income from processing fees in the market business (EUR 80 million). It also included income from guarantee commissions (EUR 18 million). This was offset by commission expense of EUR 4 million, which resulted primarily (EUR 3 million) from fees for guarantees received in connection with the lending business.

Administrative expense

Administrative expense, as the total of other administrative expenses including amortisation on intangible assets, amounted to EUR 229 million and comprised personnel expense of EUR 101 million and non-personnel expense of EUR 128 million. This represented a year-on-year increase of EUR 2 million (+1%).

The majority of personnel expense (EUR 84 million or 83%) related to expenditure for wages and salaries for the bank's employees. This also included the salaries of employees in the branch and representative offices of KfW IPEX-Bank, and a further EUR 17 million for social insurance contributions, pensions and other employee benefits. EUR 10 million of this relates to the employer's share of social insurance contributions and EUR 5 million to expenses for appropriations to provisions for pension commitments to the bank's employees. Also taking into account the effects of interest rate changes (EUR –20 million; reported under other operating income and expenses) and compound interest on present value in the 2020 financial year (EUR –7 million; reported under net interest income), expenses for pension commitments total EUR 32 million.

Non-personnel expense was substantially determined (EUR 96 million or 75%) by expenses for general services and project services provided by KfW. KfW Beteiligungsholding GmbH and KfW IPEX-Bank signed a controlling agreement in the 2020 financial year. Thus, in addition to the already existing financial and economic integration of KfW IPEX-Bank into KfW, the criterion of (indirect) organisational integration is also met and a VAT fiscal unity has been established as of 1 April 2020 with KfW as controlling company. As a result, VAT does not apply to internal services rendered since this date. The bank also purchased services (EUR 19 million) from entities outside the Group. Total non-personnel expense primarily comprised expenses for services used (EUR 64 million), office operating costs (EUR 26 million) and occupancy costs (EUR 14 million). The 2020 EU bank levy of EUR 14 million is included.

Administrative expense

	2020	2019	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	84	83	1
Social insurance contributions	10	9	1
Expense for pension provisions and other employee benefits	6	5	1
Personnel expense	**101**	**97**	**4**
Non-personnel expense	**128**	**130**	**–1**
Administrative expense	**229**	**227**	**2**

Other operating income and expenses

Other operating income and expenses of EUR –46 million included EUR –31 million from the foreign exchange result, which was primarily influenced by the depreciation of the US dollar during the past financial year. Allowing for the counter effect of the appropriation to the fund for general banking risks pursuant to Section 340g of the German Commercial Code in order to adjust it to movements in the USD exchange rate, which is reported as an economic component of the foreign currency result in a separate item in the income statement, the net result from foreign currency translation is EUR –2 million.

The item also included the effect of changes in interest rates (EUR –20 million) from provisions for staff pension commitments. Pension provisions are valued using actuarial methods. A discount rate corresponding to the residual term is used in this context, calculated by the Deutsche Bundesbank as the average market rate for the last ten financial years. The valuation effect (effect of changes in interest rates) results from the change in the discount rate compared with the previous year. The item also includes income of EUR 4 million from services provided by the bank for group companies.

Risk provisions and valuations

The result from risk provisions and valuations came to EUR –225 million. It largely comprised the result from risk provisions in lending business (EUR –224 million), together with the result from valuations from securities and investments (EUR –1 million). Overall, this item increased by EUR 140 million (>100%) year-on-year.

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. This leads to early and comprehensive recognition of expected losses within the framework of KfW IPEX-Bank's conservative risk assessment.

The risk provision result in the lending business reflects the additional need for specific and general loan loss provisions, primarily in connection with the COVID-19 crisis. The item was also impacted by the default of a large individual exposure. Overall, the risk provisioning requirement increased by EUR 152 million (>100%) year-on-year. This reflects an initial spike in the need for general loan loss provisions at the beginning of the crisis in the first quarter of 2020. Drivers were the crisis in individual sectors and countries and the associated point-in-time adjustment of default probabilities. As explained above, if there is a significant increase in default risk, the bank sets up a general loan loss provision in the amount of the loss expected over the entire residual term of the exposure. Subsequently, individual cases were deemed to be non-performing loans (NPL), mainly due to defaults in crisis sectors and countries, which increased the need for specific loan loss provisions. As the year progressed, these effects were partially offset by improvements in the credit quality of individual exposures. This primarily had a positive effect on the need for general loan loss provisions, especially in the Power and Environment sector department.

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

Taxes

Taxes on income in the financial year mainly include income from the reversal of a provision created for the 2014/2015 financial years as a result of a tax audit. They also include the current income tax expense for the branch office in London (< EUR 1 million). Due to the corporate income tax (CIT) fiscal unity that has existed between KfW IPEX-Bank and KfW Beteiligungsholding GmbH since the 2016 financial year, taxes on income for the headquarters in Frankfurt am Main are incurred at the level of KfW Beteiligungsholding GmbH as the controlling company (wholly-owned subsidiary of KfW and sole shareholder of KfW IPEX-Bank).

Other taxes include, for the first time, expenses for creating a provision in connection with KfW IPEX-Bank's US lending business. This tax provision results from registration and tax return obligations in various US states based on respective local tax laws.

Net income for the year

The income statement item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement' includes the annual profit of KfW IPEX-Bank (EUR 30 million) and the profit share for the silent partner contribution of KfW (EUR 18 million). As per the profit transfer agreement, the annual profit is recognised as a liability to KfW Beteiligungsholding GmbH as the controlling company as of 31 December 2020 (Other liabilities with a corresponding expense). Accordingly, KfW IPEX-Bank reported net income of EUR 0 million for the year. The profit was transferred to the controlling company once the annual financial statements had been approved by the general shareholders' meeting in March 2021.

Net assets

Volume of lending for own account

As of 31 December 2020, KfW IPEX-Bank managed a volume of lending for own account of EUR 38.1 billion. As well as on-balance sheet loans and advances to banks and customers (EUR 27.2 billion), this includes irrevocable loan commitments (EUR 8.8 billion) and financial guarantees (EUR 2.2 billion), both reported off-balance sheet. The volume of lending increased by EUR 2.0 billion (+5%) year-on-year. The increase is mainly due to the lending business reported in the balance sheet, which was EUR 2.1 billion higher (+8 %) year-on-year. Irrevocable loan commitments fell by EUR 0.4 billion (–4%) in the same period.

The EUR 2.1 billion increase in on-balance-sheet lending was largely determined by the performance of the Industries and Services (EUR +0.8 billion) and Resources and Recycling (EUR +0.7 billion) sector departments. In 2020, the Power and Environment, Industries and Services and Aviation, Mobility & Transport sector departments once again accounted for the largest share of on-balance sheet lending volume, amounting to a total of EUR 15.2 billion (56%).

During the 2020 financial year, the bank issued new commitments totalling EUR 15.9 billion in the Export and Project Finance business sector as part of its original lending business. EUR 13.8 billion (87%) of this related to market business, by far the largest share, and EUR 2.1 billion of additional commitments related to trust business administered by the bank on behalf of and for the account of KfW. In addition, there were new commitments of EUR 0.7 billion for bank refinancing under the CIRR ship and ERP export financing programmes. KfW IPEX-Bank participates in these schemes within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic). In total, the volume of new commitments (including CIRR) came to EUR 16.6 billion, down EUR 5.5 billion year-on-year.

Loans for own account by sector department

Sector department	31 Dec. 2020	31 Dec. 2019	Change
	EUR in millions	EUR in millions	EUR in millions
Power and Environment	5,578	5,493	86
Industries and Services	5,178	4,362	816
Aviation, Mobility & Transport	4,398	4,487	–89
Maritime Industries	4,087	3,666	421
Resources and Recycling	3,711	2,963	748
Infrastructure	2,453	2,257	196
Financial Institutions, Trade and Commodity Finance	1,883	1,692	192
Equity Portfolio	0	20	–20
	27,288	**24,940**	**2,349**
Other positions[1)]	–127	104	–231
Loans and advances to banks and customers	**27,161**	**25,044**	**2,117**
Financial guarantees[2)]	**2,160**	**1,976**	**185**
Irrevocable loan commitments[2)]	**8,800**	**9,150**	**–350**
Total	**38,121**	**36,170**	**1,952**

[1)] Mainly includes short-term deposits, subsidiary loan receivables and general risk provisions reduced on the assets side

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

Development of other material balance sheet assets

Bonds and other fixed-income securities were on a par with the previous year at EUR 0.5 billion. EUR 0.4 billion related to a portfolio of liquid assets consisting of KfW securities held by KfW IPEX-Bank in order to satisfy the regulatory liquidity coverage ratio (LCR). The securities are classified as current assets and are valued strictly at the lower of cost or market.

Assets held in trust (EUR 362 million), which are recognised in the balance sheet, include lending business that KfW IPEX-Bank administers on a trust basis for third parties.

Prepaid expenses and deferred charges (EUR 42 million) include upfront interest payments from swaps (EUR 24 million). The item also includes premiums from receivables purchases (EUR 18 million), which are amortised in net interest income over the tenor of the loans.

Investments (EUR 23 million) mainly include the bank's fund investments that are denominated in US dollars.

Financial position

Funding

The main item on the liabilities side of the balance sheet was liabilities to banks, which totalled EUR 22.7 billion as of 31 December 2020, an increase of EUR 2.2 billion (+11%) year-on-year. This reflected the bank's higher funding requirement relating to the development of the on-balance sheet lending volume. Almost all of this balance sheet item (EUR 22.7 billion) was attributable to ongoing funding from KfW. KfW provides KfW IPEX-Bank with needed funds at market-based terms on the basis of a refinancing agreement. Funding is provided in the currencies and for the tenors required for refinancing the lending business.

The funding mix comprised conventional money market and capital market products. The bank covered its medium and long-term funding requirements mostly through promissory note loans (EUR 18.7 billion). It also borrowed funds through the issuance of registered Public Pfandbriefe (EUR 1.0 billion), which were acquired exclusively by KfW. In addition, call money and term borrowings (EUR 2.9 billion) from KfW were used as part of short and medium-term borrowing.

Liabilities to customers (EUR 114 million) included cash collateral (EUR 90 million) that the bank has received in connection with its lending business, and deposit business with third parties in the form of money market transactions (EUR 15 million).

Structure and development of funding

	31 Dec. 2020	31 Dec. 2019	Change
	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks			
Current account (KfW)	7	23	–15
Call money and term borrowings (KfW)	2,852	1,785	1,067
Promissory note loans and other long-term borrowings (KfW)	19,760	18,571	1,189
Interest payable (KfW)	42	76	–34
KfW total	**22,662**	**20,455**	**2,206**
Other	84	87	–3
	22,745	**20,542**	**2,203**
Liabilities to customers			
Other creditors[1]	114	110	4
Total	**22,860**	**20,652**	**2,208**

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

To cover the bank's funding and liquidity requirements, the aforementioned refinancing agreement with KfW is supplemented by an additional credit line of EUR 3.7 billion granted by the parent company. The bank also holds a portfolio of liquid bonds comprising KfW securities (EUR 0.4 billion).

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

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

	31 Dec. 2020		31 Dec. 2019	Change
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Equity		4,173	4,079	94
Subscribed capital	*2,100*		*2,100*	*0*
Capital reserve	*1,649*		*1,554*	*94*
Retained earnings	*424*		*424*[1)]	*0*
Fund for general banking risks in accordance with Section 340g of the German Commercial Code (HGB)		316	346	–29
Total		**4,489**	**4,424**[1)]	**65**

1) Previous year's figure adjusted due to rounding

Equity on the bank's balance sheet was EUR 4.2 billion (EUR +0.1 billion compared with 31 December 2019). Subscribed capital consisted of share capital and a silent partner contribution from KfW for which there is no contractual maturity date. The capital reserve increased by EUR 0.1 billion in comparison to the previous year. This resulted from the partial reinvestment, to the extent permitted for tax purposes, of the 2019 profit transferred to KfW Beteiligungsholding GmbH. As part of the capital planning process, which uses projections spanning several years, capital shortages are identified 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 partial reinvestment of transferred profits (more details on the internal capital adequacy assessment process are contained in the Risk Report). Retained earnings include earnings retained from the period before the corporate income tax fiscal unity.

KfW IPEX-Bank contributes to a fund for general banking risks pursuant to Section 340g of the German Commercial Code (HGB) in order to strengthen its regulatory tier 1 capital and stabilise its solvency ratios against fluctuations in the USD exchange rate. The depreciation of the US dollar (–8%) compared with the year-end rate as of 31 December 2019 led to withdrawals totalling EUR 29 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 totalled EUR 303 million (EUR +25 million or +9% compared with 31 December 2019), of which EUR 241 million related to provisions for staff pension commitments (pensions and deferred compensation). These were EUR 30 million (+14%) higher year-on-year and drove the overall increase. The additional provision requirement of EUR 20 million is mainly due to the valuation effect (effect of changes in interest rates) resulting from the year-on-year change in the discount rate. The sustained period of low interest rates contributed once again to a corresponding increase in provisions in the 2020 financial year, due to the valuation of provisions with a residual term of more than one year at the average market interest rate for the last ten years (Section 253 (2) of the German Commercial Code).

Other provisions (EUR 58 million) include, in particular liabilities to staff of the bank (EUR 22 million) and provisions for credit risks (EUR 16 million).

KfW IPEX-Bank's liability to KfW Beteiligungsholding GmbH under the profit transfer agreement (EUR 30 million) is reported under Other liabilities (EUR 67 million). This item also includes the liability from KfW's profit share for the silent partner contribution (EUR 18 million) and the balancing item for foreign currency translation (EUR 9 million).

Off-balance sheet financial instrumentse

The bank performs derivative transactions in order to hedge interest and exchange rate risks. The nominal volume of derivatives on the reporting date totalled EUR 32.7 billion, of which EUR 27.9 billion (85%) related to interest rate risk. A further EUR 3.8 billion (12%) related to foreign exchange (FX) swaps and EUR 1.0 billion (3%) to cross-currency swaps. The derivatives volume increased by a total of EUR 1.1 billion (+3%) year-on-year.

Comparison with previous year's forecast

	2020 Actual	2019 Forecast for 2020
Result (EUR in millions)		
Net interest income	333	320
Net commission income	185	204
General administrative expense	–229	–269
Loan loss provisions and valuations	–225	–86
Profit/loss from operating activities before taxes	47	168
Cost-income-ratio (CIR)	**49.8 %**	**53.4 %**
New commitments incl. CIRR (EUR in billions)	**16.6**	**19.0**
of which:		
Market business	13.8	12.1
Trust business (incl. CIRR)	2.8	6.9

KfW IPEX-Bank closed the 2020 financial year with profit from operating activities before taxes of EUR 47 million. This represented a marked decrease of EUR 121 million (–72%) on the bank's forecast. This shortfall was mainly driven by the result from risk provisions and valuations.

Net interest income was EUR 333 million, exceeding expectations by EUR 13 million (+4%). Margin losses due to higher-than-forecast unscheduled repayments were more than offset by factors including higher earnings contributions from new business (new commitments in market business were above forecast) and funding conditions that were more favourable than forecast. Net commission income (EUR 185 million), on the other hand, was EUR 19 million lower, driven by changes in the remuneration paid by KfW for administration of the E&P trust business, which was EUR 21 million (–19 %) lower than expected. This is a commission-based fee calculated on the volume of lending handled and subject to minimum and maximum remuneration to cover costs. The lower remuneration reflects the shift of costs from trust business to market business (see also explanatory notes on new business).

Administrative expense was EUR 40 million (–15%) lower than projected at EUR 229 million. However, the forecast had also taken into account the above-mentioned effect of changes in interest rates arising from staff pension commitments. This valuation effect has been recognised in the actual figures in other operating income and expenses since 31 December 2019, but because the business sector planning and earnings projections had been completed by this date, the change was not adjusted in the forecast. If this effect is also taken into account in the actual figures, administrative expense is still EUR 20 million (–8%) lower than projected, with non-personnel expense the driver. Due to the COVID-19 crisis, the bank's direct material costs in particular were EUR 16 million below forecast (costs for external advisory services and travel expenses).

This resulted in a cost/income ratio (CIR)[4)] of 49.8%, which was below forecast (53.4%). In addition to administrative expense, this was also driven by higher-than-forecast net interest income.

[4)] Administrative expense plus effect of changes in interest rates from pension commitments in relation to total net interest income and net commission income plus profit share for the silent partner contribution (before deduction of risk costs)

The result from risk provisions and valuations totalled EUR –225 million, EUR 139 million (>100%) higher than forecast. Standard risk costs were as forecast at EUR –86 million. The actual figure reflects the additional need for specific and general loan loss provisions, primarily in connection with the COVID-19 crisis. In addition to an increase in specific loan loss provisions, there was also a greater need for general loan loss provisions.

In its previous year's forecast, KfW IPEX-Bank had stressed that the uncertainty in forecasting the result arose from the unpredictability of factors that influence the course of the bank's business, and that the result in the 2020 financial year would also depend on the level of risk provisions required for the bank's conservative benchmarks.

KfW IPEX-Bank issued EUR 16.6 billion in new commitments (including CIRR) in the past financial year, a total of EUR 2.5 billion (–13%) below forecast. Of this shortfall, EUR 2.0 billion related to bank refinancing under the CIRR ship and ERP export financing programmes. The bank participates in these schemes within the framework of an agency agreement with KfW (agent acting on behalf of the Federal Republic). In its original lending business (market and trust business excluding CIRR), the bank issued new commitments with a total volume of EUR 15.9 billion (EUR 0.5 billion below plan). Market business accounted for the largest share at EUR 13.8 billion (87%), which was EUR 1.7 billion or 14% above plan.

Summary

In a market environment shaped by the spread of COVID-19, KfW IPEX-Bank achieved operating income before risk provisions and valuations of EUR 243 million. If the valuation effect attributable to the fund for general banking risks pursuant to Section 340g of the German Commercial Code is also taken into account as an economic component of the foreign currency result (EUR 29 million), adjusted operating income before risk provisions and valuations comes out at EUR 272 million. This is on par with the previous year (EUR 271 million) and above the result forecast (EUR 255 million) in the group business sector planning.

The risk provision and valuation result (EUR –225 million) was impacted by the COVID-19 crisis. The crisis in some sectors and countries in the first quarter of 2020 and the associated point-in-time adjustment of default probabilities, together with the subsequent need to classify individual cases as non-performing loans, resulted in a total requirement for additional risk provisions in the lending business in 2020 of EUR 224 million. The risk provision and valuation result was significantly above the previous year's figure (EUR –85 million) and above the standard risk costs defined in the projections (EUR –86 million).

In a challenging market environment, the bank achieved a profit from operating activities before taxes of EUR 47 million, albeit significantly below the previous year's result of EUR 185 million. The forecast for earnings before tax for the 2020 financial year (EUR 168 million) was not met.

KfW IPEX-Bank transferred its annual profit (EUR 30 million) to KfW Beteiligungsholding GmbH as the controlling company on the basis of the CIT fiscal unity after the annual financial statements had been approved by the general shareholders' meeting in March 2021.

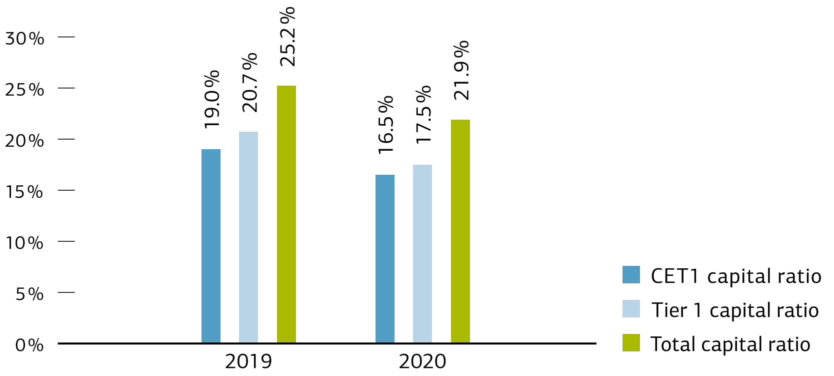
During the past financial year, the bank issued new commitments (excluding CIRR) in the Export and Project Finance business sector with a commitment volume of EUR 15.9 billion in its original lending business. KfW IPEX-Bank concentrated here on supporting long-standing customers and on structuring financing backed by good collateral. The new commitment volume was, overall, almost in line with the forecast (EUR 16.3 billion).

Risk Report

Overview of key indicators and developments

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

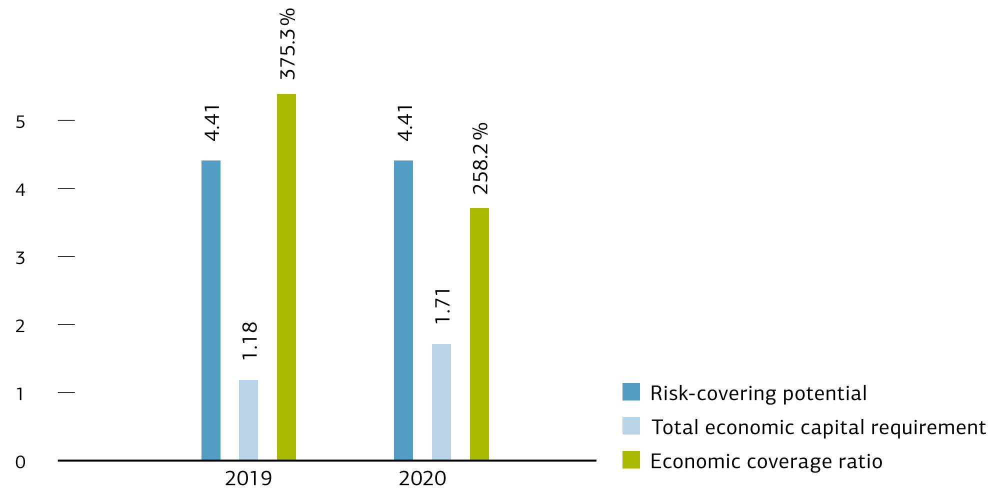
Regulatory equity ratios



Capital ratios decreased, with regulatory capital requirements higher and regulatory own funds at the same level as in the previous year.

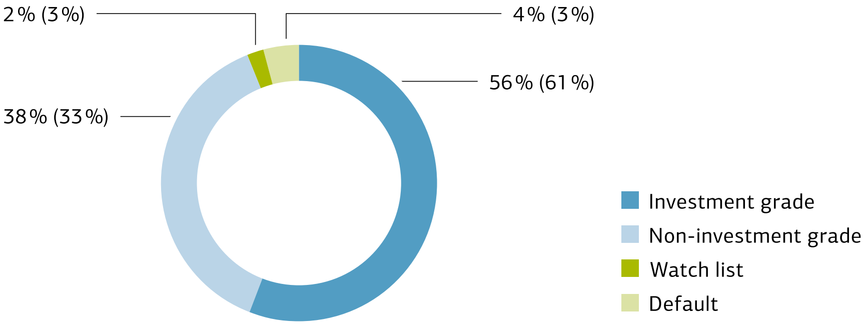
Economic risk-bearing capacity

in EUR billions or in %



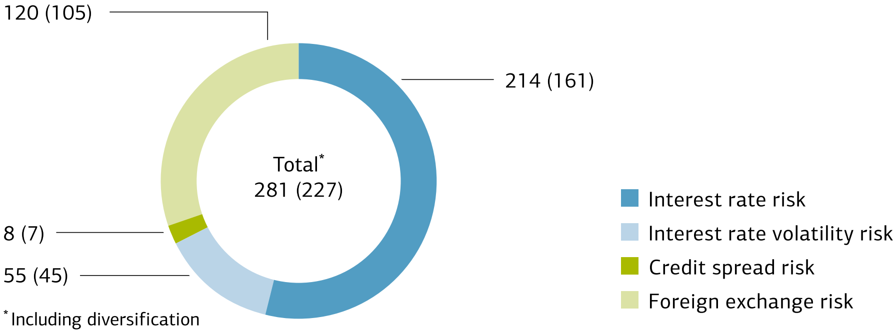
Economic risk-bearing capacity met the 99.90% solvency target. Excess cover in risk-bearing capacity decreased year-on-year, in particular due to an increased capital requirement for credit risks and the model buffer, which led to an increase in total economic capital requirements. Economic risk-covering potential was the same as in the previous year.

Credit risk
2020 (2019), Breakdown of net exposure



The proportion of non-investment grade exposures rose from 33% to 38%, at the expense of the investment grade segment in particular and mainly due to rating downgrades in the course of the COVID-19 pandemic. The proportion of NPL net exposures increased from 3% to 4%.

Market price risks
2020 (2019), ECAP EUR in millions



* Including diversification

Within market price risks, interest rate risks have the largest risk value. The increase in ECAP requirements for market price risks compared with the previous year was mainly due to lower interest rates. ECAP is calculated from the total risk value for market price risks, taking into account diversification effects between subtypes of risk. As of 31 December 2020, this diversification effect amounted to EUR 117 million.

KfW IPEX-Bank continued to develop its processes and instruments for risk management and control in the 2020 financial year, giving due consideration to current banking supervisory requirements.

For example, the risk inventory for defining material risks was expanded to consider gross risk (i.e. risk excluding risk-mitigating techniques) in addition to net risk and qualitative aspects. Compared with the previous year and by a decision of the Management Board as of October 2020, credit valuation adjustment (CVA) risk for the corporate derivatives portfolio and reputation risk are now identified in the risk inventory as significant risk types.

A new system for calculating credit risk ratios in Pillar I was introduced on 1 January 2020. Together with the service providers in the Group, the bank continued developing the rating models in light of the new regulatory requirements (IRBA Repair). Several developments were implemented or launched in 2020 - including rating procedures for corporates, countries and banks based on default probabilities – which are scheduled for completion in 2021/2022.

Measures were also taken to implement the new guidelines on risk-bearing capacity concepts, in particular integration of credit valuation adjustment (CVA) risk. Furthermore, in addition to the established assessment of the appropriateness of the internal capital adequacy assessment process (ICAAP), the bank carried out a first-time assessment of the appropriateness of the stress testing programme.

Impact and management of the COVID-19 pandemic

From spring 2020, the fast-spreading COVID-19 pandemic posed numerous challenges for KfW IPEX-Bank.

Extensive measures were taken to manage the resulting operational risks and to maintain business operations, including splitting operations for critical functions (i.e. keeping people who carry out the same work process physically separate on a permanent basis), rapidly expanding the IT capacity required for extensive use of mobile working from home, and defining a basic operation for prioritised IT access, where required. The packages of measures were regularly reviewed and adjusted as the pandemic progressed.

Since the global spread of the pandemic, KfW IPEX-Bank has monitored its borrowers more intensively, focusing in particular on their liquidity situation and prospect of state support when analysing credit risk. It also increased the frequency of credit risk committee meetings and the frequency and scope of reports, established sectoral task forces, adjusted the risk strategy by tightening and/or introducing sectoral risk guidelines and took measures to expand and increase the flexibility of staff capacity for intensive loan management and problem loan processing. In those segments particularly affected by the pandemic (especially aviation), KfW IPEX-Bank made extensive rating adjustments based on industry-specific scenarios, reviewed sector limits and adjusted them where necessary, and anticipated expected impairments to security in rem. Ad hoc risk reporting was introduced, initially on a weekly basis and later fortnightly. In the forecast of economic risk-bearing capacity, effects from the COVID-19 pandemic were also applied to the base scenario as of 31 March 2020, while the potential impact on risk-bearing capacity was examined in greater detail in scenario stress tests.

The impact of the crisis on the loan portfolio is particularly evident in industry segments related to transport or traffic, characterised by close proximity of services to the customer or subject to a relatively high degree of cyclicality and therefore particularly hard hit by the slump in growth. Besides aviation, these include basic industries and to a lesser extent – due to a smaller share of the portfolio – cruise shipping. Some customers in these segments were downgraded significantly, with increasing numbers being subsequently added to the watch list and requiring higher risk provisions. Deferrals were agreed, particularly with customers in the aviation, mobility, transport, maritime, resources and recycling segments. Risk guidelines for new business were tightened in those segments particularly hard hit.

Aviation was one of the segments most affected by the crisis. This sub-portfolio experienced some significant rating downgrades, as well as borrower insolvencies. KfW IPEX-Bank carried out a sector analysis of aviation for risk management purposes, on which basis it adopted a specific risk strategy for existing business in the E&P business sector.

General conditions of risk management and control

KfW IPEX-Bank assumes credit risks in its business activities in order to generate 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. The financial holding group, which, besides KfW IPEX-Bank, also includes KfW Beteiligungsholding GmbH, is largely dominated by KfW IPEX-Bank. As a result, material risks arise 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 continuously develops its structuring expertise and intensifies collaboration with other banks. First and foremost, these measures are intended to address the challenges to the economy posed by climate change, the environment and 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, as per the risk inventory finalised in October 2020:

- Credit risk (counterparty default risk, migration risk, CVA risk)
- Market price risk (foreign exchange risk, interest rate risk, interest rate volatility 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
- Reputational risk

Compared with the previous year, credit valuation adjustment (CVA) risk and reputational risk have been newly identified in the risk inventory as significant risk types.

Due to its business model, credit risk is the most significant risk type for KfW IPEX-Bank, followed by market price risk and operational risk. Liquidity risks, concentration risks, regulatory risks and reputational 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 managing risks. The risk strategy aims to ensure that the bank has adequate capital and liquidity and that material risks are limited. 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 self-image and mission as a KfW subsidiary operating on commercial terms play a crucial role in determining the bank's risk culture. The written procedural rules on KfW IPEX-Bank's risk culture and particularly credit risk culture are based on the Financial Stability Board's four elements of risk culture – 'management culture', 'employee responsibility', 'open communication and critical dialogue' and 'appropriate incentive structures' – and provide for an annual risk culture control cycle. All employees of KfW IPEX-Bank are encouraged to engage with the risk culture in various formats, for example in the form of training courses and departmental meetings.

Organisation of risk functions and responsibility for risk types

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 departments Credit Risk Management I & 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. The aim is to ensure that functions are separated between the front office and back office at all levels of the organisational structure, as required by the German Minimum Requirements for Risk Management (MaRisk).

The departments Credit Risk Management I & II are each responsible for approval and analysis. Approval activities in each case 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. The analysis teams are responsible for 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 the risk types of credit risk (including portfolio management and operational limit management), concentration risk, market price and liquidity risk, operational risk (including business continuity management/BCM) and reputational risk, including support for the tools used (rating, pricing). The department is also responsible for specialist monitoring of risk functions outsourced to KfW, including risk reporting. The Supervisory Management team maintains central contact with BaFin and the Deutsche Bundesbank, which are the responsible supervisory authorities of KfW IPEX-Bank, and coordinates preparation for the possibility of the bank falling under ECB supervision. 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, operational risks and business continuity management. Validation of collateral valuation procedures has also been outsourced to KfW. 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 activities and processes are governed by service level agreements between KfW IPEX-Bank and KfW. Monitoring of outsourced functions is intended to ensure 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*).

In addition, the Compliance & Human Resources department is responsible for regulatory risk, and the separation of functions here is also ensured up to Management Board level. Direct access to the Chief Risk Officer (CRO) is ensured through regular reporting to the entire Management Board and to the Non-Financial Risk Committee.

The Internal Auditing department analyses the adequacy and effectiveness of the risk management system independently of processes and reports directly to the Management Board, thereby making 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

KfW IPEX-Bank's internal capital adequacy assessment process (ICAAP) takes two perspectives into account.

The main focus of the normative perspective in the ICAAP is the institution's ability to continue as a going concern. To this end, fulfilment of Pillar I regulatory capital requirements under the Capital Requirements Regulation (CRR) and the German Banking Act is to be ensured on an ongoing basis, also taking a longer-term view (normative capital planning). As well as a baseline scenario, various adverse scenarios are also analysed. In particular, the adverse scenarios also take into account the potential impact of risks that do not explicitly have to be backed by capital under Pillar I. Changes in the large exposure limit and the leverage ratio are monitored as additional structural requirements for capital. The aim is to identify any capital shortages at an early stage.

The economic perspective in the ICAAP serves to protect creditors against losses from an economic viewpoint. In this perspective, the capital available on a specific date (risk-covering potential) is compared with the risk assumed as of that date (economic capital requirement or ECAP for all material risks on the capital side). The structure of both the capital side and the risk side is geared towards present values and is static, i.e. new business and expected results are not recognised. The risk-covering potential is based on regulatory own funds adjusted for items with no economic value and hidden charges on securities. The amount of the economic capital requirement, and thus the level of security in the risk-bearing capacity, are determined to a large extent by the solvency level (99.90%) for risk measurement.

Regular forecasts are not made for economic risk-bearing capacity. If required, however, an indicative forecast of the economic risk-bearing capacity will be provided, if a questionnaire has identified future developments that could have a material impact on the risk-bearing capacity.

Both ICAAP perspectives include regular stress tests in the form of simulations of adverse general economic conditions (downturn and stress scenarios). A traffic light system with thresholds for the key figures for normative and economic risk-bearing capacity has been established in this context. When critical developments arise, this system indicates that operational or strategic control measures need to be taken.

The appropriateness of the ICAAP is reviewed annually. The results are taken into account accordingly when the risk-bearing capacity is assessed.

As of 31 December 2020, the risk-bearing capacity is adequate in both the normative and the economic perspective.

Normative perspective

Key regulatory figures (pursuant to advanced IRBA)

	31 Dec. 2020 EUR in millions	31 Dec. 2019 EUR in millions
Total risk exposure in accordance with Art. 92 CRR	**20,698**	**17,939**
Regulatory own funds	4,525	4,516
of which: – CET1 capital	3,413	3,412
– Additional tier 1 capital	200	300
– Tier 2 capital	911	803
CET1 capital ratio	16.5%	19.0%
Tier 1 capital ratio	17.5%	20.7%
Total capital ratio	**21.9%**	**25.2%**

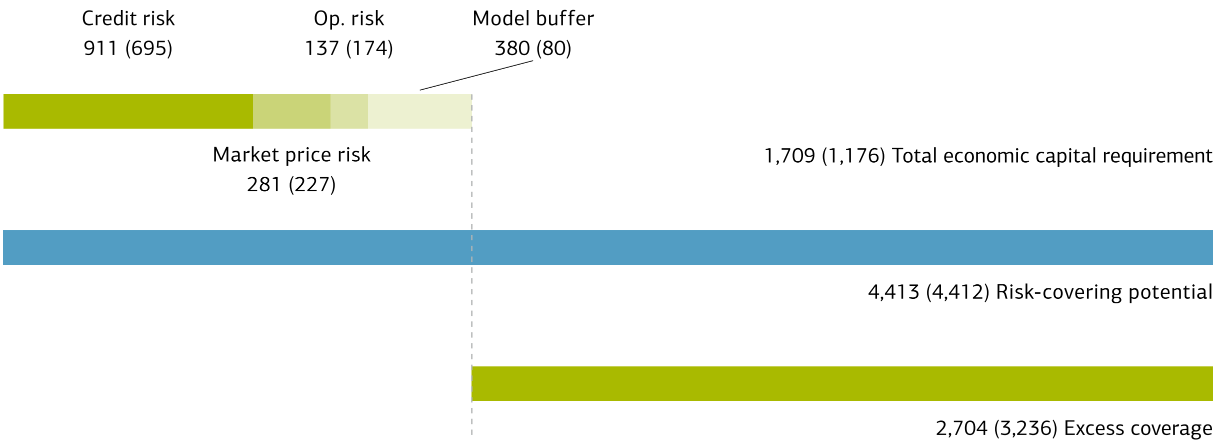
As regulatory own funds remained largely unchanged, the capital ratios decreased by 2.5 to 3.3 percentage points in the reporting year as a result of the increase in the overall risk amount. Besides the increased credit risk, relating among other things to the COVID-19 crisis, a major contributory factor was the increase in risk-weighted assets (RWA) owing to regulatory requirements. The requirements for minimum capital ratios have been met for both the CET1 capital ratio and the total capital ratio as of 31 December 2020.

Economic perspective

As of 31 December 2020, excess risk-covering potential above total economic capital requirements had decreased from EUR 3,236 million at the end of 2019 to EUR 2,704 million. This reduction was mainly due to the increased capital required for credit risk and for the model buffer. The model buffer increased in particular due to the consideration of new, foreseeable methodological developments, most of which will be implemented in 2021. The capital requirement for credit risk increased mainly due to the first-time consideration of CVA risk. The negative impact of the COVID-19 pandemic on ratings and collateral values in the loan portfolio also led to a rise in the capital requirement.

Conversely, economic risk-covering potential changed very little in the reporting year, as charges arising from higher risk provisions due to the impact of the COVID-19 pandemic on the loan portfolio and from the exchange rate-driven reduction in the fund for general banking risks, which is held in US dollars, were offset pursuant to Section 340g of the German Commercial Code by the reinvestment of the majority of the 2019 profit transferred to KfW Beteiligungsholding GmbH.

Economic risk-bearing capacity as of 31 Dec. 2020
EUR in millions



In brackets: figures as of 31 December 2019

Stress tests and test scenarios

Stress test activities in 2020 focussed on simulating the potential impact of the COVID-19 pandemic on KfW IPEX-Bank. For this purpose, the economic scenarios considered within the framework of the internal capital adequacy process were adjusted to the significantly weakened economic environment.

In addition to economic scenarios, 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 economic and normative risk-bearing capacity. These include, in particular, various sensitivity analyses and general stress tests (in accordance with Article 177 of the CRR and other regulations). Concentration and reverse stress tests are also used to show how KfW IPEX-Bank's risk-bearing capacity could be pushed to its limits. 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 examined in 2020. In the course of expanding management of environmental, social and governance (ESG) risks, a stress test was also developed for transitory climate risks.

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. In particular, credit risks include counterparty default 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 also have a significant effect on credit risk exposure. A further factor that influences the credit risk position is credit valuation adjustment (CVA) risk for derivatives business with corporate customers. In the calculation of risk-bearing capacity, migration risks and, since 31 March 2020, also CVA risks are measured on the reporting date as part of credit risk and are included in total economic capital requirements accordingly. They are also taken into account in risk management through the aforementioned stress tests and test scenarios.

Measurement of counterparty default risk

Counterparty default risk is assessed at an individual counterparty or individual transaction level, 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 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[5]:

– 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 developed internally. 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, 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.

The probabilities of default are depicted on a master scale, with the aim of ensuring the comparability of individual rating processes. 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 organisational instructions for the rating processes, which govern in particular 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.

The rating processes are regularly validated and developed further, with the aim of ensuring 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.

In addition to the exposure at default, the valuation of collateral has a significant influence on the expected loss in the event of default. As part of the collateral valuation for eligible collateral[6], net proceeds from realisation of collateral in the event of default are estimated over the entire tenor of the loan. 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, provided the regulatory and internal eligibility requirements are met. In the case of security in rem, in addition to losses in value due to depreciation, further adjustments are applied for expected and unexpected changes in value. 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.

Interaction between risk properties of individual exposures in the loan portfolio is assessed using an internal portfolio model. Pooling together large parts of the portfolio into individual borrowers or borrower groups harbours the risk of major defaults, which threaten business continuity. Portfolio management at KfW IPEX-Bank evaluates individual, industry and country risk concentrations based on the economic capital concept (ECAP). Concentrations are measured based on the economic capital commitment. The aim is to ensure 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 more extensive than monthly reports in terms of their scope and the details provided on the risk situation. Ad hoc reports are also compiled as required, in addition to regular risk reporting. On 15 April 2020, as a consequence of the COVID-19 pandemic, KfW IPEX-Bank introduced a weekly (fort-

[5] 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.
[6] 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.

nightly from 30 June 2020) ad hoc risk report for the Management Board and additional ad hoc meetings of the Counterparty Risk Committee (CRC). Information about changes in normative risk-bearing capacity, credit risk, the yellow list and deferrals, as well as about rating downgrades, was included in these ad hoc risk reports. Additionally, the overall risk report was expanded to include a section on special matters relating to COVID-19. COVID-19 ad hoc reporting was discontinued at the end of 2020 and will be resumed if required.

Management of counterparty default risk

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

Limit management

The limit management system (LMS) is used to limit default risks. This involves monitoring individual exposures and concentration risks, with the aim of managing and restricting them 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 loan portfolio is managed via 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 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 and 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, reports on 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 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 does not appear to be viable 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 exposures subject to intensified loan management. Specialists are involved at an early stage, to ensure professional problem loan management throughout the process.

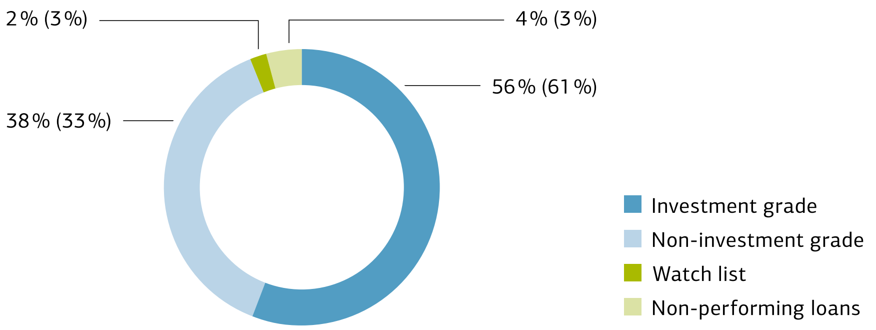
Counterparty Risk Committee

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 loan portfolio, provides an overall perspective on alternatives for action with regard to watch list and NPL cases as well as other exposures subject to particular observation, and monitors their implementation. As a consequence of the COVID-19 pandemic, regular ad hoc CRC meetings were additionally introduced in the second quarter.

Structure of counterparty default risk

Net exposure by rating class

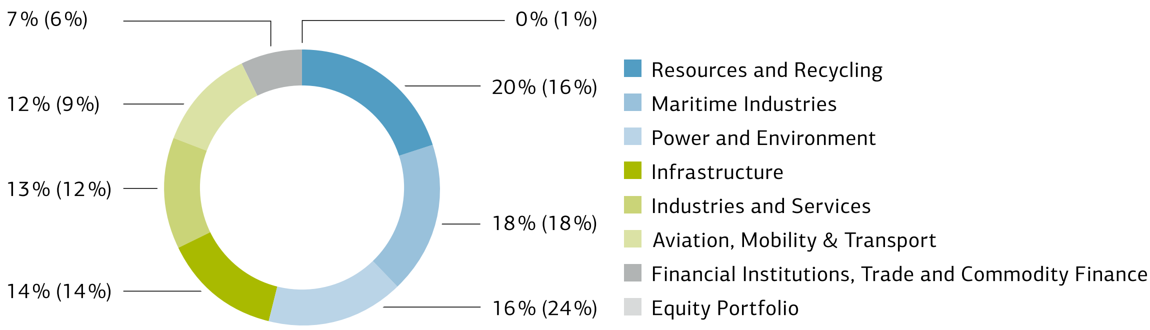
2020 (2019), Total net exposure[7]: EUR 8.3 billion



Net exposure was EUR 8.3 billion. The credit rating structure of the performing portfolio deteriorated year-on-year. The proportion of non-investment grade exposures rose from 33% to 38%, at the expense of the investment grade segment in particular. The proportion of NPL net exposures increased from 3% to 4%. The average probability of default of the performing portfolio rose slightly, from 0.86% to 0.89%, in the 2020 financial year. The change in the credit rating structure relates to extensive rating downgrades in the reporting year, primarily in the wake of the COVID-19 pandemic (especially in aviation).

Economic capital requirements by sector department

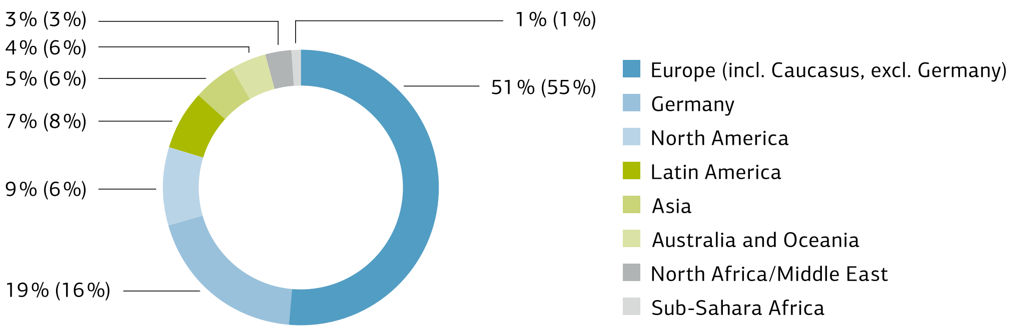
2020 (2019), Total ECAP: EUR 619 million[8]



The overview above shows the diversification of the portfolio across the bank's individual sector departments. The largest shares of economic capital were allocated to the sector departments of Resources and Recycling and Maritime Industries, with 20% and 18% respectively.

[7] The net exposure for performing loans can be calculated as the maximum function of economic and political net exposure.
[8] Excluding migration risk and CVA risk included under credit risk

Economic capital requirements by region
2020 (2019), Total ECAP: EUR 619 million[9)]



In regional terms, business is focused on Europe including Germany, which accounts for 71% of economic capital for counterparty default risk.

Risk provisions for counterparty default risks
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 2020:

Specific loan loss provisions

Sector department	31 Dec. 2020	31 Dec. 2019	Change
	EUR in millions	EUR in millions	EUR in millions
Resources and Recycling	56	38	18
Financial Institutions, Trade and Commodity Finance	38	39	–1
Maritime Industries	35	72	–37
Aviation, Mobility & Transport	32	0	32
Power and Environment	20	10	10
Infrastructure	16	18	–2
Industries and Services	0	0	0
Equity Portfolio	0	0	0
Other	10	0	10
Total	**207**	**177**	**30**

As of 31 December 2020, portfolio loan loss provisions by sector department were as follows:

9) Excluding migration risk and CVA risk included under credit risk

Portfolio loan loss provisions

Sector department	31 Dec. 2020 EUR in millions	31 Dec. 2019 EUR in millions	Change EUR in millions
Resources and Recycling	39	24	15
Aviation, Mobility & Transport	35	8	27
Maritime Industries	34	13	21
Power and Environment	21	50	–29
Financial Institutions, Trade and Commodity Finance	16	7	9
Infrastructure	15	18	–3
Industries and Services	9	5	4
Equity Portfolio	0	1	–1
Other	0	0	0
Total	**169**	**126**	**43**

MARKET PRICE RISK

KfW IPEX-Bank measures and manages market price risks on a net present value basis. The economic capital requirement for market price risks is calculated based on the value at risk (VaR) concept. The economic view of Pillar II takes into account interest rate risk (consisting of the risk subtypes of interest rate change risk and tenor and cross-currency basis spread risk, which are examined together) in the banking book, foreign exchange risk, credit spread risk for securities and interest rate volatility risk. The potential present value loss or price loss is determined for each type of market price risk using the value at risk based on a historical simulation. The economic capital requirement is ultimately calculated from total VaR, which takes into account diversification effects between the various types of market price risks.

As well as monthly reporting as part of risk reporting, the bank has set up a Market Price and Liquidity Risk Committee (MLRC), which meets every quarter as well as on an ad hoc basis and is chaired by the member of the Management Board in charge of risk management, as a central instrument for managing market price and liquidity risks. The committee focuses both on monitoring the current risk situation and on discussing management of market price and liquidity risks, as well as on issues in relation to funding, transfer pricing, derivatives business, local currency business and valuations conducted in accordance with the German Commercial Code.

In total, EUR 281 million of economic capital was allocated to market price risks at KfW IPEX-Bank as of 31 December 2020. This represents an increase of EUR 54 million compared with 31 December 2019. This increase is mainly due to a decline in interest rates. Market price risk breaks down as follows:

Economic capital requirement for market price risks

	31 Dec. 2020 EUR in millions	31 Dec. 2019 EUR in millions
Interest rate risk[10]	**214**	**161**
Interest rate change risk	169	86
Tenor basis spread risk	52	50
Cross-currency basis spread risk	128	133
Interest rate volatility risk	**55**	**45**
Currency risk	**120**	**105**
Credit spread risk	**8**	**7**
Intra-risk diversification	**–117**	**–91**
Market price risk	**281**	**227**

[10] The risk value is calculated from the integrated, diversified valuation of the risk factors, whereby risk subtypes are not cumulative.

The COVID-19 pandemic had no impact or implications in relation to the management of market price risks during the reporting year.

Value at risk approach
The economic capital requirement is calculated based on the value at risk (VaR), using a model that includes the various types of market price risk and is based on consistent methodology. Historical simulation is used as the VaR model, based on market data time series for the last three years (751 trading days). The holding period is 12 months in all cases, with time scaling carried out based on a one-day holding period. Parametric scaling is also carried out on the target quantile (99.9%), based on a 97.5% quantile in historical simulation.

Interest rate risk
The economic capital requirement for interest rate risk is calculated based on historical simulation (see section on value at risk). Risks from yield curves defined as risk factors are measured. Interest rate change risk, tenor risk and cross-currency basis spread risk are thus implicitly included. In contrast, interest rate volatility risk and credit spread risk are explicitly not included in interest rate risk, but instead are shown in separate VaR key figures. The VaR calculation is supplemented by regular stress tests, which investigate potential losses in the event of extreme market conditions. As well as yield curve shocks that are stipulated in regulations (parallel shifts, yield curve rotations), this includes, in particular, combined scenarios. The capital required to cover interest rate risk was EUR 53 million higher year-on-year at EUR 214 million as of 31 December 2020.

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 interest rate risk, and the interest rate sensitivity as of 31 December 2020. It also shows the reduction in present value for the regulatory interest rate shock scenario as specified in Circular 09/2019 issued by the German Federal Financial Supervisory Authority (BaFin) in absolute terms and as a proportion of regulatory own funds:

Currency

	EUR	USD	GBP	AUD	CAD	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	3,361.1	426.6	110.0	14.5	24.5	12.4	3,949.0
Risk value Interest rate risk (99.90%/12-month holding period)	–	–	–	–	–	–	214.0
Interest rate sensitivity (change in present value given an increase in the interest rate by one basis point)	–0.724	–0.384	–0.314	–0.047	–0.047	–0.035	–1.552
Reduction in present value given regulatory interest rate shock (+200/–200 bp)	–	–	–	–	–	–	66.8
As a proportion of regulatory own funds[1]	–	–	–	–	–	–	1.5%

[1] Own funds as of 31 Dec. 2020 EUR 4,524.6 million

Interest rate risk: Interest rate change risk
As well as the VaR for interest rate risk, the economic capital requirement for the risk subtype of interest rate change risk is calculated. This calculation is based on a breakdown of the supplied full curves into basic and basis spread curves. A 'basic curve' is calculated for each currency and the fluctuations in this curve are transferred to all yield curves in the respective currency area. A VaR for interest rate change is calculated on this basis. The capital requirement for interest rate change risk was EUR 169 million as of 31 December 2020 and was thus higher year-on-year, due to lower interest rates.

Interest rate risk: Tenor and cross-currency basis spread risk
Similar to interest rate change risk, the calculation of the economic capital requirement for basis spread risks is based on a breakdown of the supplied yield curves into basic and basis spread curves. Movements in the other yield curves with respect to the basic curves for the currency area are divided into tenor and cross-currency basis spread risk portions. The tenor and cross-currency basis spread risk is in each case quantified on the spread curves thus categorised. The capital requirement for basis spread risks was EUR 180 million as of 31 December 2020. This represents a decrease of EUR 3 million year-on-year.

Interest rate volatility risk
Interest rate volatility risk is based on changes in the market values of (embedded and stand-alone) interest rate options modelled closely to the market. The economic capital requirement for these risks is calculated as for other risk types based on historical simulation (see section on value at risk). With respect to the lending business, interest rate volatility risk is based on 'floors at 0' established in loan agreements. Interest rate volatility risk is measured as an ancillary effect of original business activities and is limited through an ECAP sublimit, but is not actively managed from an operational viewpoint. The ECAP required to cover interest rate volatility risk is also determined in a volatility stress scenario. As of 31 December 2020, the capital requirement for interest rate volatility risks was EUR 10 million higher year-on-year at EUR 55 million.

Currency risk
The economic capital requirement for currency positions is calculated as for interest rate risk based on historical simulation (see section on value at risk). Regular stress tests are also carried out in order to estimate potential losses in the event of extreme market conditions. In particular, the depreciation of the US dollar in the reporting year (EUR/USD as of 31 December 2020: 1.227 and as of 31 December 2019: 1.1234) led to an overall decrease of EUR 42.3 million in present values due to exchange rate fluctuations.

The following table provides an overview of capital requirements and regulatory capital requirements for foreign exchange risk as of 31 December 2020.

Economic capital requirement for foreign exchange risk	Regulatory capital requirements for foreign exchange risk
EUR in millions	**EUR in millions**
120.4 (previous year: 104.9)	8.2 (previous year: 13.4)

Credit spread risk
Risk measurement is carried out for the securities portfolio. The economic capital requirement for this risk is calculated as for other risk types based on historical simulation (see section on value at risk). The credit spread risk in extreme market conditions, for example in a subprime crisis, is examined in regular stress tests. The economic capital requirement for credit spread risk was EUR 8 million as of 31 December 2020. Credit spread risk increased by EUR 1 million year-on-year.

LIQUIDITY RISK
With regard to liquidity risk, KfW IPEX-Bank distinguishes between solvency risk, market liquidity risk and funding risk. Solvency 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.

Solvency risk
KfW IPEX-Bank's solvency risk is considerably limited by the existing refinancing agreement with KfW and the existing credit line with KfW. The securities portfolio also serves to ensure liquidity.

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 risk
Market liquidity risk is considered not to be material at KfW IPEX-Bank, as the bank mainly holds KfW bonds in its HQLA (High Quality Liquid Assets) portfolio (approx. EUR 400 million). These are ECB-eligible and have a very good credit rating (AAA).

Funding risk
At KfW IPEX-Bank, funding risk is quantified using a scenario-based approach for risk measurement purposes. Funding 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 risk is quantified by means of changes in the liquidity asset value in a scenario of relevance (expansion of funding costs) 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.

The COVID-19 pandemic had no impact or implications in relation to the management of liquidity risks.

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 (including outsourcing risk), information security risk, physical security risk, legal risk and compliance risk.

Service provider risk arises at KfW IPEX-Bank primarily through the outsourcing to KfW of elements of finance and risk controlling, IT, reporting, accounting, taxes and legal affairs. 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 risk). 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 sourcing managers are responsible for formal, methodology-related aspects of these monitoring activities on a centralised basis.

KfW IPEX-Bank's **information security risks** arise mainly from the outsourcing of all IT activities to KfW. Along with KfW IPEX-Bank's own information security risks, which are recorded on an annual basis and monitored each quarter, KfW IPEX-Bank coordinates closely with KfW's information security department with regard to this type of risk. Reports are submitted to the relevant committees every quarter. Decisions on how to deal with information security risks at KfW that are also relevant to KfW IPEX-Bank are made jointly.

Due to the COVID-19 pandemic, the bank recorded and assessed information security risks, particularly those accepted for the purpose of maintaining the ability to work, such as the use of various web conferencing platforms.

Physical security risk refers to the risk of losses due to damage to or the destruction of infrastructure that is used for operational purposes and to risks to life and limb for employees. Central risk controlling activities relating to this have been outsourced to KfW by means of a service level agreement. As parts of KfW IPEX-Bank's infrastructure have also been provided by KfW, this is closely linked to the sub-risk 'service provider risk', which has also been classified as significant.

KfW IPEX-Bank manages **legal risks** mainly by involving, via outsourcing, in-house lawyers from KfW's Legal Affairs department in KfW IPEX-Bank's key business processes and by monitoring these legal services.

Three KfW IPEX-Bank units are responsible for **compliance risk**: the data protection officer of KfW IPEX-Bank, who is appointed on the basis of data protection laws; the compliance function (Regulatory Compliance), which is established on the basis of the German Minimum Requirements for Risk Management (MaRisk)[11)]; and Operational Compliance, which acts as the central body responsible for the prevention of money laundering, securities compliance and other compliance requirements of an operational nature.

As part of its 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.

Regulatory Compliance is involved on the basis of MaRisk in the product launch process and in changes to key operational processes and advises the main outsourcing contacts on issues within its area of responsibility.

Since the outbreak of the COVID-19 pandemic in March 2020, Regulatory Compliance has kept a running list of the measures implemented by standard setters and regulators to ease the burden on the financial industry. Regulatory Compliance coordinates the assessment of the relevance and impact of these measures for KfW IPEX-Bank, as well as the decision-making process of the departments concerned regarding utilisation of the measures. Additionally, in order to manage compliance risk during the COVID-19 pandemic more closely, Regulatory Compliance asked the specialist divisions for an assessment of the expected impact of COVID-19 on the fulfilment of supervisory requirements. A distinction was made as to whether the effects are generally pandemic-related or whether they only arise when there is a switch to the (currently not mandated) restrictions on basic operations. Regulatory Compliance documented this procedure in the written procedural rules.

Operational Compliance is responsible for the prevention of money laundering and financing of terrorism, securities compliance regarding insider trading and market manipulation, compliance with sanctions and prevention of other criminal acts. Operational Compliance conducts an annual risk analysis in these areas, from which it derives the specific issues it will monitor. Operational Compliance is involved on the basis of MaRisk in the product launch process and in changes to key operational processes and advises the main outsourcing contacts on issues within its area of responsibility. KfW IPEX-Bank's central complaints office is also located within this unit.

[11)] General Section of MaRisk, 4.4.2.

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.

In total, EUR 137 million of economic capital was allocated to operational risks at KfW IPEX-Bank as of 31 December 2020. This represents a decrease of EUR 37 million compared with 31 December 2019.

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 and BCM;
– Involvement of the Internal Auditing department as an independent control unit.

The most important instruments in operational risk management include risk assessment, monitoring based on risk indicators, recording operational risk events and deriving measures to address them.

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.

If operational risks can be appropriately monitored by means of metrics, this is done with the help of 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. Cause analysis is used to identify weaknesses in business processes and quantify operational risks. 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 database. This is for documentation purposes and also to monitor the implementation of these measures.

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 and 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, among other matters.

With a focus on internal governance issues, the Management Board has set up an Internal Governance Board (IG Board), in which the heads of Compliance, Risk Controlling, Organisation and Internal Auditing collaborate. In particular, the IG Board's objective is to ensure a common view of regulatory developments that, due to their relevance to KfW IPEX-Bank's internal governance, are of bank-wide importance and thus affect the respective areas of responsibility of the Board's members as cross-cutting issues. The IG Board serves to ensure that the various activities of its members are aligned even more closely, while preserving their technical responsibilities and independence. The COVID-19 pandemic, which has been prevalent since the beginning of 2020, has not yet led to a significant increase in loss events recorded within the framework of KfW IPEX-Bank's operational risk management. However, this year's risk assessment considered the pandemic's potential impact and showed an increase in loss potential in some risk scenarios.

All of KfW IPEX-Bank's key business processes continued to run throughout 2020 without any changes or emergency-related disruptions, despite the outbreak of the pandemic. To manage the potential business interruption risk that could result from the pandemic, the bank has been participating since February 2020 in group committees set up for this purpose. In addition, KfW IPEX-Bank's internal 'Task Force Corona' operationalises group-wide decisions relating to the pandemic and of relevance to the bank and prepares the Management Board decisions required in this regard.

The measures introduced to deal with the pandemic are regularly reviewed and have so far prevented a corresponding absence of staff with an ensuing negative impact on KfW IPEX-Bank's business activities.

Reputational risks

Reputational risk is the risk of a long-term deterioration in the perception of KfW IPEX-Bank from the perspective of relevant internal and external stakeholders with negative impact on the bank. This negative impact could lead to a decrease in KfW IPEX-Bank's net assets, results of operations or liquidity position (e.g. decline in new business) or may be of a non-monetary nature (e.g. difficulty in recruiting new staff). Reputational risk may arise as a consequence of other types of risk, or independently.

The framework for managing reputational risks includes a group-wide sustainability mission statement. Within this framework, the risk management process for reputational risk is primarily managed in a decentralised fashion. The core element here is the presentation and critical assessment of reputational aspects within the credit approval process and when carrying out the annual ratings update. The bank regularly examines new activities in the new products process (NPP) and/or changes to operational processes and structures and, as part of outsourcing management, outsourced activities in search of potential reputational risks.

Relevant reputational risk events are reported to the Non-Financial Risk Committee, which meets (at least) quarterly to discuss them and decide any necessary measures. In addition, reports about reputational risk events that have occurred are made to the Management Board on an ongoing basis as part of the monthly risk report; reputational risk events classified as material are also reported to the Management Board on an ad hoc basis.

Concentration risks

With regard to concentration risks, KfW IPEX-Bank differentiates between intra-risk concentrations (within one risk type) and inter-risk concentrations (spanning several risk types).

Significant intra-risk concentrations result from business activities in credit risk in individual sectors, countries or borrower units. KfW IPEX-Bank aims to actively restrict 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. The bank seeks to avoid the resulting foreign exchange risks as far as possible 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 and monitors concentration risks. Concentration risks are also included in stress tests.

Regulatory risks

Regulatory risks arise for KfW IPEX-Bank primarily through more stringent requirements for minimum capital ratios, burdens on the bank's results of operations, net assets and liquidity position, and the adverse impact on the bank's business model and business strategy of changes in the regulatory environment that are yet to enter into force.

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. In addition, any changes in the legal and regulatory environment in which KfW IPEX-Bank operates are actively monitored. Where required, regulatory risks (for example 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 complied with.

In order to establish efficient risk management, the processes for managing corporate risks must be linked within an integrated system. To manage corporate risks, KfW IPEX-Bank has adopted the 'three lines of defence' model (3LoD) as the regulatory framework for an effective, integrated governance, risk and compliance management system:

- The structure of KfW IPEX-Bank's internal control system is shaped by the first two lines of defence. It essentially comprises the control activities of the operational business units and the monitoring activities of the monitoring units.
- The third line of defence is established by the audit activities of the independent Internal Auditing department.

Internal control procedures

Internal control system		Internal Auditing	
Overall bank management		**Internal Auditing**	
1st line of defence	**RISK OWNERSHIP** Process-integrated controls to mitigate risks. Definition and performance of controls in the processes (1st-line controls).	3rd line of defence	**RISK ASSURANCE** Process-independent audit. Review of the appropriateness and effectiveness of procedures, processes, instructions and controls to manage risks within the 1st and 2nd lines.
Monitoring units			
2nd line of defence	**RISK CONTROL** Process-related monitoring of risks and rule-setting function. Definition of requirements to manage risks within the 1st line. Monitoring and reporting of risks (2nd-line controls).		

The responsible monitoring functions (second line) at KfW IPEX-Bank are derived from the significant risk types/subtypes and the significant operational risk types (in accordance with the overview in the 'Business and risk strategy' section).

An annual control cycle has been implemented to ensure that the ICS is continuously updated and stably embedded within KfW IPEX-Bank GmbH. The first and second lines of defence have different roles and duties within this control cycle, for which KfW IPEX-Bank's ICS Office sets the framework. This includes components for risk assessment, control activities and monitoring, and an element to ensure notification and communication of findings.

Internal control system
The internal control system consists of

- regulations on organisational and operational structure,
- processes for identifying, assessing, managing, monitoring and communicating risks (risk management and controlling processes), and
- the Risk Controlling and Compliance functions.

The Management Board and managers are responsible for designing and implementing the ICS, based on KfW IPEX-Bank's independent ICS framework.

In terms of methodology, the ICS framework is structured according to the COSO 2013 model[12)] in conjunction with the 'three lines of defence' model. It is also geared towards KfW Group's guidelines to ensure consistency within the banking group.

As a basis for the Board of Supervisory Directors' annual deliberations on the internal control system, KfW IPEX-Bank drafts an ICS report and provides information about findings, anomalies and innovations relating to the ICS and its effectiveness.

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. 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.

Internal Auditing
The purpose of the Internal Auditing department, acting on behalf of the Management Board, is to provide independent, objective and risk-oriented auditing and advisory services designed to assess all processes and activities of KfW IPEX-Bank with regard to their proper conduct, appropriateness, effectiveness, security (IT) and efficiency. It supports management by systematically and selectively reviewing and evaluating the appropriateness and effectiveness of the risk management system, the internal control system and the business processes, assisting with significant projects and making findings on the basis of which measures are introduced. It is an instrument of the bank's management, to which it has a direct reporting obligation. It reports its audit findings to the competent management. It also prepares quarterly and annual reports on the audits conducted during the reporting period, compliance with the audit plan, material findings and measures taken, which it submits to the management and the Audit Committee.

Internal Auditing performs its duties on the basis of a risk-oriented audit approach that includes all processes and activities of KfW IPEX-Bank, regardless of whether they are carried out in-house or are outsourced. In order to perform its duties, Internal Auditing has a complete and unrestricted right to information.

In terms of the processes involved in risk management, during the past financial year the Internal Auditing department reviewed both the risk management processes within KfW IPEX-Bank and risk management activities that are outsourced. Its audits focused on the fundamentals of bank-wide risk management (risk strategy, risk culture, risk inventory, risk reporting) and the processes of operational risk management, as well as on risk management procedures at a bank-wide and risk-type level, including the specialist monitoring of outsourced functions. In accordance with the changed risk situation due to COVID-19, another focus of Internal Auditing was on monitoring risk provisioning, risk-bearing capacity and deferrals. It also considered the emergency measures necessitated by the pandemic.

With regard to outsourced functions, Internal Auditing takes into account the findings of audits carried out by the respective companies' internal audit departments. In order to rely on the findings of service providers' internal audit departments, Internal Auditing reviews the latter's functionality at regular intervals.

Moreover, KfW IPEX-Bank's Internal Auditing department monitored the ongoing development of the risk management system in 2020 by attending meetings of decision-making bodies (as a guest).

[12)] COSO = Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org. The COSO I model and the updates made to it in 2013 are an instrument for introducing internal control systems and reviewing them to ensure they are appropriate and effective.

Other disclosures

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

Increasing the number of women in management positions reflects not only 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 objectives. As of 31 December 2020, the proportion of women in head of department positions at KfW IPEX-Bank was 29.4% and the proportion of women at team head level was 31.5%. 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: 25.0% 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

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 2020 Sustainability Report. The report follows the Global Reporting Initiative (GRI) guidelines and can be downloaded from the internet.[13)]

[13)] https://www.kfw.de/KfW-Group/Service/Download-Center/Konzernthemen/Nachhaltigkeit/Nachhaltigkeitsbericht/index.jsp

Forecast Report

KfW IPEX-Bank expects global real GDP to grow by 5.4% year-on-year in 2021, after contracting, according to IMF estimates, by 3.5% year-on-year in 2020 in the wake of the coronavirus crisis. The higher growth rate expected for global real GDP in 2021, compared with both 2020 and the 2010-2019 average, is based on economic recovery after the 2020 recession. The IMF forecasts this trend for both industrialised countries and developing and emerging countries (as per its definition). Real GDP of industrialised countries in 2021 is not expected to return to the pre-crisis level of 2019, whereas that of developing and emerging countries will probably be higher than in 2019, although this is due to China (see Table 1 'Gross domestic product at constant prices of industrialised and emerging countries'). These aggregates conceal regional differences, with the IMF's projections in the World Economic Outlook of October 2020 showing that, in 2021, emerging and developing countries in Latin America and the Caribbean will undershoot the pre-crisis level of 2019 by the widest margin, whereas Asian emerging and developing countries will probably have more than closed the gap.

Table 1: Gross domestic product at constant prices of industrialised and emerging countries

	Estimate for 2020[1)]	Forecast for 2021[2)]	Average 2010–2019	Forecast for 2021
	Year-on-year change in %			Index 2019 = 100
Global economy*	–3,5	5,4	3,7	102
Industrialised countries*	–4,9	4,1	2,0	99
Developing and emerging countries*	–2,4	6,4	5,1	104
Developing and emerging countries excl. China*	–4,7	5,0	4,0	100

* Aggregation of annual growth rates in gross domestic product at constant prices of individual countries based on shares of the country-specific gross domestic product, valued at purchasing power parity, in the corresponding aggregate; division into industrialised and emerging countries in accordance with the IMF classification; average calculated as the geometric mean of annual growth rates

Sources:
1) IMF (2021), World Economic Outlook Update, Policy Support and Vaccines Expected to Lift Activity, January 2021. Values for emerging and developing countries excluding China calculated from this data basis.
2) Forecasts for global economy, industrialised countries and emerging and developing countries based on World Economic Outlook Data, October 2020 Edition, https://www.imf.org/en/Publications/WEO/weo-database/2020/October, accessed: 10 November 2020. Forecast for emerging and developing countries excluding China according to IMF (2020), World Economic Outlook. October 2020: A Long and Difficult Ascent

According to the IMF, this baseline scenario involves a number of risks. Global growth in real GDP in 2021 may turn out to be lower as a result of various developments if (a) the pandemic cannot be brought under control or the development of a vaccine against COVID-19 is delayed; (b) fiscal policy support is withdrawn too early; (c) international financing conditions unexpectedly increase or existing conflicts and uncertainties in international trade intensify or widen; (d) corporate insolvencies increase; or (e) geopolitical conflicts, extreme weather conditions, natural disasters (climate change) or social unrest occur. Global real GDP could conceivably develop more positively than anticipated if, in particular, a safe and effective vaccine against COVID-19 can be quickly developed, produced and distributed, but also if normalisation after the recession is faster than expected or fiscal policy support is stronger than assumed.

Source:
Risks based on World Economic Outlook, October 2020 edition,
https://www.imf.org/-/media/Files/Publications/WEO/2020/October/English/text.ashx, accessed: 12 November 2020

KfW IPEX-Bank expects gross domestic product in the **euro area** to grow by 5.1% in real terms in 2021. This expected growth rate is three times the average for the period 2010 to 2019. But even if this forecast proves correct, the increase in overall economic production will not be strong enough to reach the level of real GDP before the pandemic started, i.e. in 2019 (see Table 2 'Gross domestic product at constant prices of the euro area, Germany and the USA'). As such, KfW IPEX-Bank's forecast is in line with the European Commission's assessment that containment measures to combat COVID-19 cannot be completely dispensed with, even in 2021, and that economic recovery in EMU member states is likely to progress at different speeds. All demand-side components of GDP should make a positive contribution to real GDP growth in 2021. In terms of private consumption and investment, this forecast is based on the European Commission's assessment that businesses and households are adapting to the changed conditions brought about by the pandemic. Together with state support measures, this should encourage deferred consumer spending and investment projects during the course of 2021. Due to remaining trade tensions and restrictions on cross-border mobility, the European Commission expects net exports to make only a limited contribution (0.3 percentage points) to growth.

Sources:
– Dr Borger, Klaus: KfW Business Cycle Compass, November 2020, https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-KfW-Konjunkturkompass/PDF-Dokumente-KfW-Konjunkturkompass-EN/KfW-Konjunktukompass_D_EZ_November_2020_EN.pdf
– Assessment of change in components based on European Commission forecasts, November 2020, https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2020-economic-forecast_en, pp. 1–6, pp. 37–41, accessed: 16 November 2020

In **Germany**, KfW IPEX-Bank estimates that real GDP will grow by 4.0% year-on-year in 2021. Against the backdrop of the global economic forecasts described above, and assuming progress in containing the COVID-19 pandemic during 2021, KfW IPEX-Bank expects net exports to support the increase in real GDP in 2021. Of the domestic expenditure components of GDP, KfW IPEX-Bank expects investments in equipment and private consumption expenditures to achieve the highest growth rates in real terms in 2021. The latter prediction is based on the assumption that the number of people in employment in Germany will rise in 2021. Although the growth rate anticipated by KfW IPEX-Bank for real GDP in 2021 is 2.1 percentage points higher than the average growth of the previous ten years, this is still insufficient to fully offset the 5.0% decline seen in 2020. Thus, real GDP in 2021 will probably be lower than in 2019, the year before the outbreak of the COVID-19 pandemic (see Table 2 'Gross domestic product at constant prices of the euro area, Germany and the USA').

Table 2: Gross domestic product at constant prices of the euro area, Germany and the USA

	2020	Forecast for 2021	Average 2010–2019	Forecast for 2021
	Year-on-year change in %			Index 2019 = 100
Euro area	−6.8	5.1	1.4	98
Germany	−5.0	4.0	1.9	99
USA	−3.5	3.8	2.3	101

Sources:
– Eurostat, table: 'GDP and main components', accessed: 3 February 2021
Bureau of Economic Analysis, Table 1.1.3. Real Gross Domestic Product, accessed: 3 February 2021
– Average in each case calculated as the geometric mean of annual growth rates

It is KfW IPEX-Bank's view that setbacks in containing the COVID-19 pandemic pose the greatest economic risk for Germany and the European Monetary Union, and could lead to lower than expected growth in real GDP in 2021. Additional risks include possible conflicts in the future shape of long-term relations between the European Union and the United Kingdom, geopolitical and trade tensions at a global level, and Italy's national debt. The latter is a permanent source of uncertainty for confidence in the financial markets of the European Monetary Union and thus also of Germany. Increasing skills shortages and a lack of continuing education also pose a risk, for Germany specifically. The main opportunities lie in unexpectedly fast progress in overcoming the COVID-19 pandemic.

Sources:
– Dr Borger, Klaus: KfW Business Cycle Compass, November 2020, https://www.kfw.de/PDF/Download-Center/Konzernthemen/Research/PDF-Dokumente-KfW-Konjunkturkompass/KfW-Konjunktukompass_D_EZ_November_2020.pdf
– Müller, Martin: Coronavirus crisis and structural change – continuing education is more important than ever (*'Corona-Krise und Strukturwandel – Weiterbildung wichtiger denn je'*), KfW Research, Economics in Brief

In 2021 KfW IPEX-Bank wants to further consolidate its position as a specialist bank for structured export and project finance and as a partner 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 2021, assisting them in their international activities by providing medium and long-term financing for exports and foreign investment projects that is geared towards its customers' requirements. It seeks to play a leading role in syndicate financing arrangements and to include risk partners in the financing structures.

The spread of COVID-19 is bringing about changes in terms of what is being financed: Demand for financing for passenger-intensive investment assets, such as in cruise shipping and aviation, has fallen sharply and is likely to remain at this level. Some financings of new projects to secure raw materials have been postponed.

Conversely, demand for financing of infrastructure projects, especially in the digital sector, has increased. Overall, there is still potential for business. KfW IPEX-Bank is selectively adding to its product portfolio and has expanded its representative office in Singapore into a subsidiary with a merchant bank licence (application submitted in 2019). These steps are expected to help deepen existing customer relationships and onboard new customers and customer groups for KfW IPEX-Bank financings.

Based on the market potential it is anticipating and ongoing tough competition, KfW IPEX-Bank has set a target of EUR 16.2 billion for the volume of new commitments for the 2021 financial year.

Net interest income and net commission income are budgeted at EUR 343 million and EUR 225 million respectively, 7% and 10% above the respective prior-year figures, due to growth in new business and disbursements under contracted financing. A target of EUR 272 million has been set for administrative expense, 1% higher than the previous year's budgeted figure. Risk costs in lending business are expected to come in at EUR 100 million, EUR 16 million above the previous year's figure due to the actual and expected impacts of the COVID-19 pandemic on the credit ratings of borrowers and the recoverability of collateral. In total, the bank is aiming for earnings before tax of EUR 233 million and a cost/income ratio of 51.5%. The planned CET1 capital ratio of 13.1% exceeds the capital requirements and is met even in the stress case scenario, at 12.2%. KfW IPEX-Bank funds itself almost entirely through borrowings from KfW, also over its planning horizon, with terms and conditions based on KfW IPEX-Bank's rating on capital markets.

The singular nature of the COVID-19 pandemic makes for extremely high forecasting uncertainty, but the forecast outlined above is considered to be appropriate and robust. This uncertainty also applies to the earnings forecast for 2021, which will depend, as in previous years, on the level of risk provisions required for our conservative benchmarks.

Financial Statements, Notes, Independent Auditor’s Report

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

Corporate Governance Report

Financial Statements of KfW IPEX-Bank

Balance sheet of KfW IPEX-Bank as of 31 December 2020

Assets

	31 Dec. 2020				31 Dec. 2019			
	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			45,265				234,529	
c) other loans and advances			911,949	**957,214**			908,521	**1,143,050**
of which: due on demand	*2,146*				*1,350*			
of which: collateralised by securities	*0*				*0*			
3. Loans and advances to customers								
a) mortgage loans			831,554				764,902	
b) municipal loans			1,122,244				1,088,039	
c) other loans and advances			24,250,383	**26,204,181**			22,048,109	**23,901,050**
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		499,651	499,651			499,029	499,029	
of which: eligible as collateral with the Deutsche Bundesbank	*409,915*				*400,986*			
c) own bonds			0	**499,651**			0	**499,029**
Nominal value	0				0			
5. Investments				**22,973**				**26,585**
of which: in banks	*360*				*360*			
of which: in financial services institutions	*0*				*0*			
6. Assets held in trust				**362,415**				**372,704**
of which: loans held in trust	*361,460*				*372,181*			
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			7,651				209	
c) goodwill			0				0	
d) payments on account			0	**7,651**			0	**209**
8. Property, plant and equipment				**299**				**403**
9. Other assets				**14,253**				**23,412**
10. Prepaid expenses and deferred charges								
a) from issuing and lending			18,267				20,893	
b) other			24,052	**42,319**			13,240	**34,133**
Total assets				**28,110,961**				**26,000,583**

Liabilities and equity

	31 Dec. 2020				31 Dec. 2019			
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1. Liabilities to banks								
a) registered Mortgage Pfandbriefe in issue			0				0	
b) registered Public Pfandbriefe in issue			1,043,231				1,033,538	
c) other liabilities			21,702,170	**22,745,402**			19,508,518	**20,542,056**
of which: due on demand	*1,016,413*				*26,300*			
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			114,476	**114,476**			110,395	**110,395**
of which: due on demand	*34,034*				*18,427*			
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				**362,415**				**372,704**
of which: loans held in trust	*361,460*				*372,181*			
4. Other liabilities				**66,948**				**255,742**
5. Deferred income								
a) from issuing and lending			5,457				2,923	
b) other			23,934	**29,390**			14,054	**16,977**
6. Provisions								
a) provisions for pensions and similar commitments			241.168				211,367	
b) tax provisions			3,833				4,418	
c) other provisions			57,870	**302,871**			62,535	**278,320**
7. Fund for general banking risks				**316,331**				**345,531**
8. 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			1,648,678				1,554,409	
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) net income for the year			0	**4,173,127**			0	**4,078,858**
Total liabilities and equity				**28,110,961**				**26,000,583**
1. Contingent liabilities								
a) from the endorsement of rediscounted bills		0				0		
b) from guarantees and guarantee agreements		2,160,376				1,975,857		
c) assets pledged as collateral on behalf of third parties		0	2,160,376			0	1,975,857	
2. Other obligations								
a) commitments deriving from non-genuine repurchase agreements		0				0		
b) placing and underwriting commitments		0				0		
c) irrevocable loan commitments		8,799,632	8,799,632			9,149,658	9,149,658	

Income Statement of KfW IPEX-Bank from 1 January to 31 December 2020

Expenses

	1 Jan. – 31 Dec. 2020				1 Jan. – 31 Dec. 2019			
	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			249,703				547,669	
less positive interest from banking business			–11,576	**238,126**			–8,996	**538,673**
2. Commission expense				**3,694**				**2,649**
3. Administrative expense								
a) personnel expense								
aa) wages and salaries		83,951				82,566		
ab) social insurance contributions, expense for pension provision and other employee benefits		16,732	100,683			14,591	97,157	
of which: for pension provisions	*5,382*				*5,127*			
b) other administrative expense			128,140	**228,823**			129,629	**226,786**
4. Amortisation, depreciation and impairment on intangible assets and property, plant and equipment				**159**				**162**
5. Other operating expenses				**51,985**				**27,555**
6. Write-downs of and value adjustments on loans and specific securities and increase in loan loss provisions				**224,772**				**74,982**
7. Additions to the fund for general banking risks				**0**				**6,518**
8. Write-downs of and value adjustments on investments, shares in affiliated companies and securities treated as fixed assets				**245**				**10,363**
9. Taxes on income				**–3,783**				**221**
10. Other taxes not stated under other operating expenses				**3,344**				**0**
11. Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement				**47,622**				**185,301**
12. Net income for the year				**0**				**0**
Total expenses				**794,986**				**1,073,210**

Income

	1 Jan. – 31 Dec. 2020				1 Jan. – 31 Dec. 2019			
	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		568,618				852,625		
less negative interest from lending and money market transactions		–106	568,512			–1,596	851,029	
b) fixed-income securities and debt register claims		2,839				–144		
less negative interest from fixed-income securities and debt register claims		–420	2,418	**570,930**		–723	–867	**850,162**
2. Current income from								
a) shares and other non-fixed income securities			0				0	
b) investments			0				9	
c) shares in affiliated companies			0	**0**			0	**9**
3. Commission income				**188,664**				**203,241**
4. Withdrawals from the fund for general banking risks				**29,200**				**0**
5. Other operating income				**6,191**				**19,798**
Total income				**794,986**				**1,073,210**

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 interestlike 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', applying the following actuarial assumptions:

	31 Dec. 2020
	in % p.a.
Interest rate for accounting purposes	2.30
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

The valuation effect resulting from year-on-year changes in the discount rate used for discounting pension obligations is reported under other operating income.

Other provisions are reported in the amount of their required settlement 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 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 recognised 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.

Allowance has been made for risks arising from the lending business through the recognition of value adjustments and 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 cash flows 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, second alternative of the Code for any excess obligations resulting from the valuation of the interest-related banking book. The requirements set forth in the Accounting Principle 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 (IDW AcP 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, 2020 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 2020, 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.

Profit shares in relation to the silent partner contribution of KfW are reported under the item 'Profit transferred due to a profit pooling, profit transfer or partial profit transfer agreement'.

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

All appropriations 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 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)]	43,774	194,873	417,883	271,900	23,247	5,538	957,214
(as of 31 Dec. 2019)	*221,216*	*97,141*	*380,032*	*385,906*	*40,572*	*18,183*	*1,143,050*
Loans and advances to customers	0	1,111,357	2,803,027	12,860,654	9,344,567	84,576	26,204,181
(as of 31 Dec. 2019)	*0*	*889,319*	*2,804,260*	*11,162,534*	*8,935,565*	*109,372*	*23,901,050*
Total	**43,774**	**1,306,230**	**3,220,910**	**13,132,553**	**9,367,814**	**90,114**	**27,161,394**
(as of 31 Dec. 2019)	*221,216*	*986,460*	*3,184,292*	*11,548,440*	*8,976,137*	*127,555*	*25,044,100*
in %	**0**	**5**	**12**	**48**	**34**	**0**	**100**

1) Loans and advances due on demand including municipal loans

	Loans and advances to		Total
	Banks	Customers	
of which to:	EUR in thousands	EUR in thousands	EUR in thousands
Shareholder	0	0	**0**
Affiliated companies	45,398	42	**45,440**
Companies in which KfW IPEX-Bank holds a stake	29,723	0	**29,723**
Subordinated assets	0	7,202	**7,202**

Bonds and other fixed-income securities

Listed/marketable securities

	31 Dec. 2020	31 Dec. 2019
	EUR in thousands	EUR in thousands
Listed securities	499,651	499,029
Unlisted securities	0	0
Marketable securities	**499,651**	**499,029**

The 'Bonds and other fixed-income securities' item totalling EUR 500 million (previous year: EUR 499 million) mainly contains a portfolio of high-quality and highly liquid KfW securities (HQLA portfolio) in the amount of EUR 410 million (previous year: EUR 401 million). The increase was mainly due to the addition of a corresponding KfW security. There are no securities in the portfolio that fall due during the year following the balance sheet date (previous year: EUR 0 million).

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 fixed-income securities (EUR 0.1 billion) are assigned to fixed assets.

Fixed assets

	Changes 2020[1]	Residual book value 31 Dec. 2020	Residual book value 31 Dec. 2019
	EUR in thousands	EUR in thousands	EUR in thousands
Investments	–3,611	22,973	26,585
Bonds and other fixed-income securities	–8,307	89,735	98,043
of which: included in valuation units within the meaning of Section 254 of the German Commercial Code (HGB)	*0*	*0*	*0*
Total	**–11,919**	**112,708**	**124,628**

[1] Including exchange rate changes

	Acquisition/ production costs	Additions	Disposals	Transfers	Acquisition/ production costs as of 31 Dec. 2020	Cumulative amortisation, depreciation and impairment as of 1 Jan. 2020
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Intangible assets	431	7,491	0	0	7,922	222
Property, plant and equipment[2]	819	13	9	0	823	416
Sum	**1,250**	**7,504**	**9**	**0**	**8,744**	**637**
Total						

	Amortisation, depreciation and impairment 2020	Write-ups	Cumulative amortisation, depreciation and impairment in the financial year			Cumulative amortisation, depreciation and impairment as of 31 Dec. 2020	Residual book value 31 Dec. 2020	Residual book value 31 Dec. 2019
			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	271	7,651	209
Property, plant and equipment[2]	110	0	1	2	0	524	299	403
Sum	**159**	**0**	**1**	**2**	**0**	**794**	**7,950**	**612**
Total							**120,658**	**125,240**

[2] Of which: as of 31 Dec. 2020: – total value of plant and equipment: EUR 299 thousand
– total value of land and buildings used for the bank's activities: EUR 0

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 90 million. No write-downs 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	320	–58
2.	Bussard Air Leasing Ltd. i.L., Dublin, Ireland[2)]	100.0	–2.152	165

[1)] Figures available as of 31 Dec. 2019 only
[2)] Figures available as of 31 Dec. 2016 only

Assets held in trust

	31 Dec. 2020	31 Dec. 2019	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Loans and advances to banks	0	0	0
Loans and advances to customers	361,460	372,181	–10,721
Shares	955	523	432
Total	**362,415**	**372,704**	**–10,289**

In addition to assets held in trust of EUR 362 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 22.6 billion (previous year: EUR 24.4 billion) on behalf of KfW as an indirect agent.

Other assets

Other assets totalling EUR 14 million (previous year: EUR 23 million) mainly include other assets from interest rate options amounting to EUR 5 million (previous year: EUR 6 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 5 million (previous year: EUR 13 million) and receivables from the tax authorities arising from tax advances and tax refund claims totalling EUR 1 million (previous year: EUR 2 million).

Prepaid expenses and deferred charges

Prepaid expenses and deferred charges of EUR 42 million (previous year: EUR 34 million) include, in particular, upfront interest payments from swaps amounting to EUR 24 million (previous year: EUR 13 million) and capitalised premium amounts from purchases of receivables of EUR 18 million (previous year: EUR 21 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	1,016,413	3,400,640	3,161,074	10,648,300	4,476,984	41,991	22,745,402
(as of 31 Dec. 2019)	*26,300*	*2,744,129*	*2,954,043*	*9,678,865*	*5,062,333*	*76,386*	*20,542,056*
Liabilities to customers – other liabilities	34,034	78,109	0	0	0	2,333	114,476
(as of 31 Dec. 2019)	*18,427*	*81,569*	*0*	*0*	*0*	*10,399*	*110,395*
Total	**1,050,446**	**3,478,749**	**3,161,074**	**10,648,300**	**4,476,984**	**44,324**	**22,859,878**
(as of 31 Dec. 2019)	*44,727*	*2,825,698*	*2,954,043*	*9,678,865*	*5,062,333*	*86,785*	*20,652,451*
in %	**5**	**15**	**14**	**47**	**20**	**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	22,661,694	0	22,661,694
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 German Ordinance Regarding the Accounting System for Banks and Financial Services Institutions (RechKredV)

		31 Dec. 2020	31 Dec. 2019
		EUR in millions	EUR in millions
Public Pfandbriefe in issue		**1,042**	**1,031**
Cover assets			
Loans and advances to customers		1,387	1,213
a) mortgage loans		*0*	*0*
b) municipal loans		*621*	*487*
c) other loans and advances		*766*	*726*
Bonds and other fixed-income securities		75	75
Cover assets total		**1,462**	**1,288**
Over-collateralisation	**absolute value**	**420**	**257**
	in %	**40**	**25**

Information in accordance with Section 28 of the German Pfandbrief Act (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. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	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	1,042	1,031	1,062	1,051	1,170	1,148
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Total value of cover pools including derivatives	1,462	1,288	1,590	1,367	1,600	1,404
of which: derivatives	*0*	*0*	*0*	*0*	*0*	*0*
Over-collateralisation absolute	**420**	**257**	**528**	**316**	**429**	**256**
value in %	**40**	**25**	**50**	**30**	**37**	**22**

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

Section 28 (1) no 2 of the Pfandbrief Act Maturity structure and fixed-interest period	Pfandbriefe in circulation		Cover pool	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
up to 6 months	0	0	67	67
more than 6 to 12 months	0	0	66	66
more than 12 to 18 months	232	50	66	67
more than 18 months to 2 years	0	0	69	66
more than 2 to 3 years	197	239	151	121
more than 3 to 4 years	157	209	202	143
more than 4 to 5 years	91	164	112	188
more than 5 to 10 years	366	369	407	350
more than 10 years	0	0	321	221

Section 28 (1) no 9 of the Pfandbrief Act	31 Dec. 2020	31 Dec. 2019
	in %	in %
Proportion of fixed-rate		
– cover pool	*31*	*31*
– Pfandbriefe	*44*	*41*

Section 28 (1) no 10 of the Pfandbrief Act (as per Section 6 of the Pfandbrief Net Present Value Regulation)	Net present value	
Foreign currency	31 Dec. 2020	31 Dec. 2019
	EUR in millions	EUR in millions
AUD	21	22
CAD	101	0
USD	–92	–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 German Pfandbrief Act			
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	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. 2020	31 Dec. 2019
	EUR in millions	EUR in millions
up to EUR 10 million	12	3
more than EUR 10 million to EUR 100 million	478	421
more than EUR 100 million	973	864
Total	**1,462**	**1,288**

	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. 2020		31 Dec. 2019		31 Dec. 2020		31 Dec. 2019		31 Dec. 2020		31 Dec. 2019	
	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	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Federal Republic of Germany	0	584	0	443	0	3	0	0	0	55	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
France	225	0	124	0	0	0	0	0	0	0	0	0
United Kingdom	0	0	0	83	0	0	0	0	0	0	0	0
Austria	0	20	0	17	0	0	0	0	0	0	0	0
Total	**225**	**604**	**124**	**543**	**0**	**3**	**0**	**0**	**0**	**55**	**0**	**40**

[1] Owed
[2] Guaranteed

	Section 28 (3) nº 2 of the German Pfandbrief Act Total value of claims used by country and debtor class							
	Other debtors				Total		thereof: guarantees provided to promote export finance	
	31 Dec. 2020		31 Dec. 2019		31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	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	EUR in millions	EUR in millions
Federal Republic of Germany	159	75	165	25	875	673	584	468
Denmark	0	269	0	297	269	297	269	297
Finland	0	72	0	94	72	94	72	94
France	0	0	0	0	225	124	0	0
United Kingdom	0	0	0	0	0	83	0	83
Austria	0	0	0	0	20	17	20	17
Total	**159**	**416**	**165**	**416**	**1,462**	**1,288**	**945**	**959**

[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 Pfandbrief Act Total value of claims where the arrear is at least 5% of the claim	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Sovereigns	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. 2020	31 Dec. 2019	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Liabilities to banks	0	0	0
Liabilities to customers	362,415	372,704	–10,289
Total	**362,415**	**372,704**	**–10,289**

Other liabilities

Other liabilities totalling EUR 67 million (previous year: EUR 256 million) mainly consist of the liability to KfW Beteiligungsholding GmbH resulting from the existing profit transfer agreement of EUR 30 million (previous year: EUR 166 million), the profit share for the silent partner contribution of KfW of EUR 18 million (previous year: EUR 19 million) and the balancing item for the foreign currency translation of derivative hedges of EUR 9 million (previous year: EUR 60 million).

Deferred income

Deferred income totalling EUR 29 million (previous year: EUR 17 million) mainly comprises discounts from upfront interest payments from swaps that have been received but do not yet impact income of EUR 24 million (previous year: EUR 14 million) and discounts from receivables purchases totalling EUR 5 million (previous year: EUR 3 million).

Provisions

In addition to provisions for pensions and similar commitments totalling EUR 241 million (previous year: EUR 211 million) and tax provisions amounting to EUR 4 million (previous year: EUR 4 million), other provisions of EUR 58 million (previous year: EUR 63 million) were recognised as of 31 December 2020. These other provisions relate in particular to liabilities to staff (EUR 22 million), provisions for credit risks (EUR 16 million), archiving costs (EUR 11 million), tax provisions in connection with the bank's US lending business (EUR 4 million) and provisions for contingent losses on derivatives concluded in connection with the lending business (EUR 3 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 42 million as of 31 December 2020 (previous year: EUR 38 million).

Other required disclosures on liabilities and equity

Contingent liabilities

Sector department	31 Dec. 2020 EUR in millions	31 Dec. 2019 EUR in millions	Change EUR in millions
Power and Environment	695	764	–69
Aviation, Mobility & Transport	590	426	164
Maritime Industries	247	244	3
Industries and Services	193	156	37
Financial Institutions, Trade and Commodity Finance	183	150	33
Infrastructure	130	147	–17
Resources and Recycling	123	89	34
Total	**2,160**	**1,976**	**185**

New guarantees given in the 2020 financial year amounted to EUR 259 million. In contrast, a total of EUR 75 million was redeemed.

Irrevocable loan commitments

Sector department	31 Dec. 2020 EUR in millions	31 Dec. 2019 EUR in millions	Change EUR in millions
Resources and Recycling	1,865	2,083	–218
Power and Environment	1,653	1,836	–183
Maritime Industries	1,249	1,600	–351
Industries and Services	1,284	1,400	–116
Infrastructure	1,235	983	252
Aviation, Mobility & Transport	988	708	280
Financial Institutions, Trade and Commodity Finance	526	540	–14
Equity Portfolio	0	0	0
Total	**8,800**	**9,150**	**–350**

Total irrevocable loan commitments as of 31 December 2020 stood at EUR 8,800 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 German Ordinance Regarding the Accounting System for Banks and Financial Services Institutions (RechKredV)

	31 Dec. 2020			31 Dec. 2019		
	Frankfurt EUR in thousands	London EUR in thousands	Total EUR in thousands	Frankfurt EUR in thousands	London EUR in thousands	Total EUR in thousands
Interest income	567,160	3,770	570,930	844,604	5,558	850,162
Current income from						
a) shares and other non-fixed-income securities	0	0	0	0	0	0
b) investments	0	0	0	9	0	9
c) shares in affiliated companies	0	0	0	0	0	0
Commission income	188,642	22	188,664	203,221	20	203,241
Withdrawals from the fund for general banking risks	29,200	0	29,200	0	0	0
Other operating income	–1,277	7,468	6,191	6,421	13,376	19,797
Total	**783,725**	**11,261**	**794,986**	**1,054,255**	**18,954**	**1,073,209**

Interest expense and interest income

Valuation of provisions led to interest expense from compounding of EUR 6,968 thousand (previous year: EUR 7,144 thousand).

In 2020, negative interest amounts arose to a significant extent in connection with liabilities-side promissory note loans in the amount of EUR 7,504 thousand (previous year: EUR 5,794 thousand) and interest-bearing securities in the amount of EUR 420 thousand (previous year: EUR 723 thousand). Furthermore, negative interest amounts arose in connection with money market transactions – EUR 4,072 thousand (previous year: EUR 3,202 thousand) from call money and term borrowings and EUR 106 thousand (previous year: EUR 802 thousand) from call money and term lending.

Other operating expense

Other operating expense amounted to EUR 52 million (previous year: EUR 28 million). This primarily included realised and unrealised exchange losses from foreign currency valuation totalling EUR 31 million (previous year: EUR 4 million) and the effect of changes in interest rates from the valuation of provisions in connection with staff pension commitments amounting to EUR 20 million (previous year: EUR 21 million).

Other operating income

Other operating income of EUR 6 million (previous year: EUR 20 million) chiefly related to income from services provided to group companies totalling EUR 4 million (previous year: EUR 2 million) and income from the reversal of provisions no longer required of EUR 1 million (previous year: EUR 6 million).

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

	31 Dec. 2020	31 Dec. 2019
	EUR in millions	EUR in millions
Annual profit to be transferred due to the profit transfer agreement concluded with KfW Beteiligungsholding GmbH	30	166
Profit sharing for the KfW silent partner contribution	18	19
Total	**48**	**185**

Appropriation of profit

As part of the implementation of the existing profit transfer agreement, the annual profit (EUR 30 million) is transferred to KfW Beteiligungsholding GmbH, subject to approval of the financial statements by the general shareholders' meeting.

Other required disclosures

Assets and liabilities denominated in foreign currency

Assets and liabilities denominated in foreign currency as well as spot 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 2020.

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 2020, 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 15.5 billion (previous year: EUR 15.6 billion), of which EUR 14.5 billion related to loans and advances to customers.

Total liabilities denominated in foreign currency amounted to EUR 15.4 billion (previous year: EUR 15.6 billion), of which the majority (EUR 10.4 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. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	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	410	400	410	401	421	411
Total	**410**	**400**	**410**	**401**	**421**	**411**

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 current assets, micro-hedges are formed by combining fixed-income securities and hedging transactions (interest rate swaps).

The offsetting effect of the underlying and hedging transactions is verified through a critical terms match. The critical terms match ensures that fluctuations in value are offset both retrospectively and prospectively through matching 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 2020, 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

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 2020.

Derivative transactions – volumes

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2020
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest rate swaps	27,434	26,087	1,207	1,447
Swaptions	0	0	0	0
Caps/floors	438	452	2	2
Total	**27,872**	**26,539**	**1,208**	**1,449**
Contracts with foreign exchange risks				
Cross-currency swaps	964	1,104	29	15
FX swaps	3,777	3,876	4	59
FX forward transactions	105	128	0	0
Total	**4,846**	**5,108**	**32**	**74**
Equity and other price risks	**0**	**0**	**0**	**0**
Credit derivatives	**0**	**0**	**0**	**0**
Total	**32,718**	**31,647**	**1,241**	**1,523**

Derivative transactions – maturities by nominal volume

	Interest rate risks		Foreign exchange risks		Credit derivatives	
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2019
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Maturity						
– up to 3 months	486	227	3,096	3,056	0	0
– more than 3 months to 1 year	1,531	1,433	952	1,078	0	0
– more than 1 year to 5 years	12,160	10,584	693	841	0	0
– more than 5 years	13,696	14,295	105	133	0	0
Total	**27,872**	**26,539**	**4,846**	**5,108**	**0**	**0**

Derivative transactions – counterparties

	Nominal value		Fair values positive	Fair values negative
	31 Dec. 2020	31 Dec. 2019	31 Dec. 2020	31 Dec. 2020
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Counterparties				
OECD banks	21,787	20,982	64	1,504
Non-OECD banks	0	0	0	0
Other counterparties	10,824	10,554	1,149	18
Public sector	107	111	27	0
Total	**32,718**	**31,647**	**1,241**	**1,523**

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 24,135 million as of 31 December 2020 (previous year: EUR 23,905 million). In addition, financial guarantees amounting to EUR 169 million (previous year: EUR 175 million) were administered.

	31 Dec. 2020	31 Dec. 2019	Change
	EUR in millions	EUR in millions	EUR in millions
Market business	9,750	8,972	778
Trust business	9,516	10,617	–1,101
Other[1)]	4,869	4,316	553
Total	**24,135**	**23,905**	**230**

[1)] Including refinancing for CIRR ship financings by third-party banks totalling EUR 4,460 million (previous year: EUR 3,922 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 table below shows the average number of staff employed during the financial year.

	2020	2019[1)]	Change
Female employees	405	354	51
Male employees	429	387	42
Total	**833**	**741**	**92**
Staff not covered by collective agreements	*605*	*576*	*29*
Staff covered by collective agreements	*195*	*165*	*30*
Staff working in representative offices[2)]	*33*	*n. a.*	*n. a.*

[1)] The previous year's figures for female and male employees were adjusted because they had been swapped in the previous year's report.
[2)] In the previous year, 35 employees worked at representative offices. These were not included in the employee figures for 2019.

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 2020 was EUR 2,027 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)	410	101	15	526
Markus Scheer	410	78	29	516
Claudia Schneider	410	47	8	465
Andreas Ufer	410	75	36	521
Total	**1,638**	**302**	**87**	**2,027**

[1)] Differences may occur in the table due to rounding.
[2)] Variable remuneration relates to the payment of performance-based bonuses for work performed as a member of the Management Board and also contains deferred bonus components from previous years.
[3)] Other remuneration mainly comprises use of company cars, insurance premiums and taxes incurred on such remuneration.

Deferred performance-based bonuses in relation to previous years in the amount of EUR 26 thousand and retirement pension payments totalling EUR 566 thousand were paid to former members of the Management Board in the 2020 financial year.

As of 31 December 2020, provisions for pensions for former members of the Management Board and their surviving dependants stood at a total of EUR 14,111 thousand.

Total remuneration paid to the members of the Board of Supervisory Directors was EUR 110 thousand (net). Attendance fees amounting to EUR 65 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 chair. In addition, attendance fees of EUR 1 thousand are paid for meetings of the Board of Supervisory Directors and of 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, nor to their surviving dependants. 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 Dr Kukies and Dr Nussbaum also waived their remuneration and attendance fees.

As of 31 December 2020, 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 members of the Management Board or other employees

Thomas Brehler, Department Head
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

Chair: Dr Ingrid Hengster
(Member of the Executive Board, KfW Group)
(Chair of the Board of Supervisory Directors)
from 1 November 2020

Prof. Dr Joachim Nagel
(Member of the Executive Board, KfW Group)
(Chair of the Board of Supervisory Directors)
up to 31 October 2020

Norbert Gasten
(KfW IPEX-Bank employee representative, Project Manager)
up to 30 September 2020

Guido Knittel
(KfW IPEX-Bank employee representative, Chair 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)

Dr Ulrich Nußbaum
(State Secretary, Federal Ministry for Economic Affairs and Energy)

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

Timm Rometzki
(KfW IPEX-Bank employee representative, Team Head)
from 1 October 2020

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

Management Board

Klaus R. Michalak
(CEO)

Andreas Ufer

Markus Scheer

Claudia Schneider

Frankfurt am Main, 16 February 2021

Klaus R. Michalak **Andreas Ufer**

Markus Scheer **Claudia Schneider**

Independent Auditor's Report[1)]

Independent Auditor's Report

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 2020, and the income statement for the financial year from 1 January 2020 to 31 December 2020, 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 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the sections "Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code" and "Non-financial statement" in the management report.

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 2020 and of its financial performance for the financial year from 1 January 2020 to 31 December 2020 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 sections "Corporate governance statement in accordance with Section 289f (4) of the German Commercial Code" and "Non-financial statement".

Pursuant to Sec. 322 (3) Sentence 1 of the German Commercial Code, 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 of the German Commercial Code 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 2020 to 31 December 2020. 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.

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

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

1. Valuation of the loan (sub-)portfolios Maritime Industries and Aviation

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.

In our audit, the valuation of the loan (sub-)portfolios Maritime Industries and Aviation within the customer loan portfolio was a key audit matter, since these two (sub-) portfolios have been particularly affected by the negative impact of the Covid-19 pandemic. Furthermore, as a result of the Covid-19 pandemic the collaterals accepted from the borrowers in these two (sub-)portfolios in the form of ship and aircraft mortgages have a higher risk in terms of their recoverability compared to the whole collateral portfolio of the bank. With this in mind, judgemental decisions made when determining the assumptions regarding the valuation of the loan (sub-)portfolios Maritime Industries and Aviation, notably the assumptions on the impact of the Covid-19 pandemic on collateral values, 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 doing so, regarding collateral in the form of ship and aircraft mortgages we assessed the expertise and objectivity of industry experts used by KfW IPEX-Bank GmbH. We used our own industry experts to evaluate the valuation methods and assumptions used and compared the collateral values recognized by the bank with the values appraised by our own industry experts.

Our audit procedures did not lead to any reservations with respect to the valuation of the loan (sub-)portfolios Maritime Industries and Aviation.

Reference to related disclosures

The Institution's disclosures on the valuation of the loan portfolios (including the loan (sub-)portfolios Maritime Industries and Aviation) 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.

Other information

According to Art. 10 of the Articles of Association of KfW IPEX-Bank GmbH, 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 sections:

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

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 of the German Commercial Code 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 Board's 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 11 December 2019. We were engaged by the Board of Supervisory Directors on 2 September 2020. 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 KfW IPEX-Bank GmbH'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 KfW IPEX-Bank GmbH.
– Audit according to Sec. V No. 11 (1) of the General Terms and Conditions of the Deutsche Bundesbank.

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

Eschborn/Frankfurt am Main, 2 March 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Müller-Tronnier
Wirtschaftsprüfer
[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 requires disclosure of the following information:

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

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

The disclosures were made on the basis of the individual financial statements of KfW IPEX-Bank GmbH prepared in accordance with the German Commercial Code (*Handelsgesetzbuch – HGB*) as of 31 December 2020.[14)]

Country	Company name	Nature of activities	Geographical location of branches	Turnover[2)]	Number of employees	Profit before tax[2), 3)]	Tax on profit[2), 4)]	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	470.47	721	45.89	–0.77	0.00
UK	KfW IPEX-Bank GmbH	Export and project finance	London	8.27	19	1.29	0.33	0.00

1) The number of employees on a full-time equivalent basis is shown in rounded figures.
2) Calculated on a gross basis
3) On the basis of the profit transfer agreement concluded with KfW Beteiligungsholding GmbH in the context of the CIT fiscal unity, the profit for the year is transferred in full to the controlling company at whose level the taxes are determined and transferred.
4) These are tax matters that lie outside the CIT fiscal unity or were established prior to the CIT fiscal unity.

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 2020, the return on assets within the meaning of Section 26a (1) sentence 4 of the Act is 0.0011 or 0.11%[15)].

14) Consolidated financial statements are not prepared. KfW IPEX-Bank GmbH is included in the consolidated financial statements of KfW Group, Frankfurt am Main.
15) The net profit is the annual profit that the bank 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 2020, the recommendations of the 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 taken out 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 a certain predefined limit; this is contrary to Clause 5.1.8 of the PCGC. In this way, the Board of Supervisory Directors and the Management Board of KfW IPEX-Bank achieve an appropriate distribution of competencies between the Board of Supervisory Directors and the Management Board, while at the same time reacting to the expansion of the volume of business and growing volumes of individual commitments of KfW IPEX-Bank. 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. 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 3 of the Articles of Association, rather than set by the supervisory body itself.

Allocation of responsibilities
The Management Board adopted Rules of Procedure, after consulting with the Board of Supervisory Directors and with the consent of the general shareholders' meeting, 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 approval of the general shareholders' meeting – 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 culture, 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, Syndication 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. This requirement was fulfilled by Prof. Dr Joachim Nagel until 31 October 2020 and by Dr Ingrid Hengster from 1 November 2020. During the reporting year and as of 31 December 2020, the Board of Supervisory Directors included two female representatives.

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, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin*) may authorise a member of a supervisory body to assume an additional mandate. Two members of the Board of Supervisory Directors have received such authorisation. Members of the Board of Supervisory Directors should also not serve in an administrative, supervisory or consulting role for any significant competitors of the company. The members of the Board of Supervisory Directors complied with these recommendations during the reporting period. Conflicts of interest should be disclosed to the Board of Supervisory Directors. In no case where loans were submitted to the Loan Committee for approval did members abstain 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 makes 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
As 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 Capital Requirements Regulation (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 voluntary member of the deposit guarantee fund of the Association of German Public Banks (*Bundesverband Öffentlicher Banken Deutschlands e.V.*).

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 appetite 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, regulatory compliance, 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 and risk culture, particularly the credit risk culture; these are continually updated and developed to reflect the current legal and regulatory framework as well as market requirements. Training sessions on all compliance-related issues and on KfW IPEX-Bank’s risk culture are held on a regular basis for KfW IPEX-Bank employees.

Accounting and annual audit

On 19 December 2019, the general shareholders' meeting of KfW IPEX-Bank appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft as auditor of the financial statements for the 2020 financial year. The Board of Supervisory Directors had already issued the audit engagement to Ernst & Young on 28 November 2019, subject to it being appointed by the general shareholders' meeting. 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 2020 on the basis of structured questionnaires. The overall outcome of the assessment was a score of 1.3. 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 2020 and will be completed in the first quarter of 2021.

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 drafted 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*) adopted by the Federal Cabinet. The contracts have since been further developed based on legal and regulatory requirements, for example, the German Remuneration Ordinance for Institutions (*Institutsvergütungsverordnung – IVV*). 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. 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 general shareholders' meeting – 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 company, 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

	2020	2019	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Management Board	2,027	2,005	22
Members of the Board of Supervisory Directors	175	176	–1
Total	**2,202**	**2,181**	**21**

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 reserved performance-based bonus components are also shown.

Annual remuneration paid to active members of the Management Board and additions to pension provisions during 2020 and 2019 in EUR thousands[1)]

	Salary		Variable remuneration[2)]		Other remuneration[3)]		Total		Bonus account[4)]		Additions to pension provisions	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands
Klaus R. Michalak (CEO)	410	410	101	99	15	15	526	524	278	307	159	327
Markus Scheer	410	410	78	76	29	26	516	512	213	236	469	718
Claudia Schneider	410	410	47	34	8	10	465	454	198	186	378	412
Andreas Ufer	410	410	75	71	36	36	521	516	214	233	230	587
Total	**1,638**	**1,638**	**302**	**280**	**87**	**87**	**2,027**	**2,005**	**903**	**962**	**1,237**	**2,044**

1) Rounding differences may occur in the table for computational reasons.
2) Variable remuneration relates to the payment of performance-based bonuses for work performed as a member of the Management Board and also to deferred bonus components from previous years.
3) This remuneration is presented in analogy with the figures given in the Notes in accordance with Section 285 (9) of the German Commercial Code excluding employer benefits according to the German Social Insurance Act (*Sozialversicherungsgesetz*). These totalled EUR 55 thousand in 2020 (previous year: EUR 53 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 2020. 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 general shareholders' meeting 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 25 September 2020.

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 2020, 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 2020 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 2020.

Retirement pension payments and other benefits in the case of early retirement
According to Section 5 (1) sentence 6 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. Members of the Management Board who turn 65 years of age and/or reach statutory retirement age and whose contract for serving on the Management Board has expired are entitled to retirement pension payments. 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 adopted by the Federal Cabinet. 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 566 thousand (previous year: EUR 557 thousand) were made in the 2020 financial year.

In addition, deferred performance-based bonuses totalling EUR 26 thousand (previous year: EUR 35 thousand) were paid to former members of the Management Board. As of 31 December 2020, further deferred bonus components of EUR 8 thousand remained in the bonus account (previous year: EUR 36 thousand).

Provisions for pension obligations for former members of the Management Board and their dependants totalled EUR 14,111 thousand as of the end of the 2020 financial year (previous year: EUR 13,845 thousand).

The overview below shows payments made to former members of the Management Board and/or to their surviving dependants:

Remuneration paid to former members of the Management Board and/or their surviving dependants

	Number of payees		Retirement benefits		Number of payees		Payment of deferred performance-based bonuses[1]		Number of payees		Provisions for pension obligations	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands
Former members of the Management Board	3	3	566	557	1	1	26	35	3	3	14,111	13,845
Surviving dependants	0	0	0	0	0	0	0	0	0	0	0	0
Total	**3**	**3**	**566**	**557**	**1**	**1**	**26**	**35**	**3**	**3**	**14,111**	**13,845**

[1] As of 31 December 2020, further deferred bonus components in the amount of EUR 8 thousand (previous year: EUR 36 thousand) remained in the bonus account. In this financial year payments were made with a deduction due to the insufficient sustainable performance of KfW IPEX-Bank.

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. 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.

Members who join during the year receive their remuneration on a pro rata basis.

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 of 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 2020 and 2019 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 2020 in EUR

Member	Dates of service	Annual remuneration (net)	Attendance fees[1] (net)	Total (net)
Dr Nagel[2]	1 Jan. – 31 Oct.	–	–	–
Dr Hengster[2]	1 Nov. – 31 Dec.	–	–	–
Dr Peiß[2]	1 Jan. – 31 Dec.	–	–	–
Dr Nußbaum[2]	1 Jan. – 31 Dec.	–	–	–
Dr Kukies[2]	1 Jan. – 31 Dec.	–	–	–
Dr Rupp	1 Jan. – 31 Dec.	22,000.00	17,000.00	39,000.00
Ms Kollmann	1 Jan. – 31 Dec.	22,000.00	12,000.00	34,000.00
Mr Gasten	1 Jan. – 30 Sep.	16,500.00	11,000.00	27,500.00
Mr Rometzki	1 Oct. – 31 Dec.	5,500.00	2,000.00	7,500.00
Mr Knittel	1 Jan. – 31 Dec.	22,000.00	12,000.00	34,000.00
Mr Koch	1 Jan. – 31 Dec.	22,000.00	11,000.00	33,000.00
Total		**110,000.00**	**65,000.00**	**175,000.00**

[1] Lump sum of EUR 1,000 net per meeting attended
[2] Remuneration not claimed

Remuneration paid to members of the Board of Supervisory Directors for 2019 in EUR

Member	Dates of service	Annual remuneration (net)	Attendance fees[1] (net)	Total (net)
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
Ms Kollmann	1 Jan. – 31 Dec	22,000.00	10,000.00	32,000.00
Mr Gasten	1 Jan. – 31 Dec	22,000.00	13,000.00	35,000.00
Mr Knittel	1 Jan. – 31 Dec	22,000.00	17,000.00	39,000.00
Mr Koch	1 Jan. – 31 Dec	22,000.00	9,000.00	31,000.00
Dr Nußbaum[2)]	1 Jan. – 31 Dec	–	–	–
Dr Kukies[2)]	1 Jan. – 31 Dec	–	–	–
Total		**110,000.00**	**66,000.00**	**176,000.00**

1) Lump sum of EUR 1,000 net per meeting attended
2) Remuneration not claimed

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 2021

Management Board **Board of Supervisory Directors**

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