



ANNUAL REPORT

2010

KEY FIGURES OF KfW BANKENGRUPPE

Total commitments of KfW Bankengruppe	2008	2009	2010
	EUR in billions	EUR in billions	EUR in billions
KfW Group core business (consolidated)¹⁾	67.8	63.9	81.4
KfW Mittelstandsbank ²⁾	17.0	23.8	28.5
KfW Privatkundenbank	14.9	16.1	20.0
KfW Kommunalbank	11.6	9.4	15.8
Advisory grants	0.0	0.1	0.1
Export and project finance (KfW IPEX-Bank)	17.6	8.9	9.3
<i>Promotional business</i>	5.0	4.3	3.9
<i>Market business</i>	12.6	4.6	5.4
Promotion for developing and transition countries	4.9	4.5	5.7
<i>KfW Entwicklungsbank</i>	3.6	3.5	4.5
<i>DEG</i>	1.2	1.0	1.2
<i>Asset securitisation and capital market-related products</i>	1.9	1.5	2.1
Total volume KfW Group (consolidated)^{1) 3)}	67.8	63.9	103.7






Differences in the totals are due to rounding

¹⁾ Adjusted for commitments made in export and project financing refinanced through KfW programme loans (2010: EUR 231 million, 2009: EUR 394 million, 2008: EUR 52 million).

²⁾ Including cancellations and waivers in the KfW Special Programme in the amount of EUR 1,514 million in 2010

³⁾ The Total volume KfW Group (consolidated) includes special business from the loan granted to Greece in 2010 as mandated by the Federal Government in the amount of EUR 22.3 billion. The maximum disbursement amount in the first year is EUR 8.4 billion.

Strong demand for KfW promotion again in 2010 – record result strengthens long-term promotional capacities

-  Promotional business in Germany and abroad: EUR 81.4 billion (+ 27 %)
-  Contribution to overcoming the economic crisis through successful "KfW Special Programme"
-  One third of total promotional volume for environmental and climate protection investments
-  Record result of EUR 2.6 billion through special framework conditions
-  Basis to secure long-term promotional capacities and preparation for capital requirements from Basel III


Key income statement figures for the KfW Group	2010	2009
	EUR in millions	EUR in millions
Net interest income	2,752	2,654
<i>Interest rate reductions</i>	-558	-571
Net commission income	273	286
Administrative expense	722	742
Operating result before valuation	2,302	2,198
Risk provisions for lending business	424	-972
Net gains/losses from hedge accounting and other financial instruments at fair value through profit or loss	-13	55
Net gains/losses from securities and investments and from investments accounted for using the equity method	-1	-120
Operating result after valuation	2,712	1,161
Net other operating income	-27	23
Profit/loss from operating activities	2,685	1,184
Taxes on income	54	57
Consolidated profit	2,631	1,127
Consolidated profit before IRFS effects from hedging	3,061	1,432
Change in revaluation reserves recognised directly in equity	33	261
Cost/income ratio before interest rate reductions ¹⁾	20.2 %	21.1 %

Key balance sheet figures	2010	2009
	EUR in billions	EUR in billions
Total assets	441.8	400.1
Volume of lending	426.7	383.5
Contingent liabilities	7.0	7.5
Irrevocable loan commitments	65.3	50.4
Assets held in trust	16.6	16.9
Volume of business	530.6	474.8
Equity	15.8	13.1
Equity ratio	3.6 %	3.3 %

Key regulatory figures	2010	2009
	EUR in billions	EUR in billions
Risk position	124.1	129.4
Tier 1 capital	15.3	12.2
Total regulatory capital	18.3	15.2
Tier 1 ratio	12.4 %	9.4 %
Total capital ratio	14.7 %	11.7 %

Employees of KfW Bankengruppe	2010	2009
	4,531	4,265

¹⁾ Administrative expense in relation to adjusted income. Adjusted income is calculated by adding net interest and commission income and interest rate reductions.



The sustainability of our enterprise, globalisation, climate change and demographic change - we are currently facing great challenges. Global challenges require consistent action.

KFW IS AWARE OF THIS RESPONSIBILITY.

99 per cent of all German enterprises are SMEs. They form the backbone of the German economy. The sustainability of this growth and job engine is decisive for economic development.

Globalisation has fundamentally changed the economic framework conditions. Increasingly countries are becoming involved in cross-border trade.

Melting glaciers, rising sea levels and threatening heat waves: in order to counteract global warming, CO₂ emissions must be reduced.

Societies in industrialised countries continue to age, while those in the developing and transition countries are getting younger. This demographic change impacts the social system, education and the economy.

*It's time
for a new
future*



CONTENTS

Key figures of KfW Bankengruppe

IT'S TIME FOR A NEW FUTURE	5
-----------------------------------	----------

Letter from the Executive Board	22
---------------------------------	----

WE PROMOTE GERMANY	27
---------------------------	-----------

At a glance: Domestic promotion in 2010	34
---	----

Business area KfW Mittelstandsbank	42
------------------------------------	----

Business area KfW Privatkundenbank	47
------------------------------------	----

Business area KfW Kommunalbank	50
--------------------------------	----

Securitisations	54
-----------------	----

Sales	56
-------	----

WE SUPPORT INTERNATIONALISATION	61
--	-----------

At a glance: Export and project finance in 2010	64
---	----

KfW IPEX-Bank	66
---------------	----

WE PROMOTE DEVELOPMENT	73
-------------------------------	-----------

At a glance: Promotion of developing and transition countries in 2010	78
---	----

KfW Entwicklungsbank	80
----------------------	----

DEG	88
-----	----

CAPITAL MARKETS	91
------------------------	-----------

SERVICES	103
-----------------	------------

THE MEN AND WOMEN ON OUR STAFF	107
---------------------------------------	------------

FINANCIAL REPORTING	113
----------------------------	------------

CORPORATE GOVERNANCE	119
-----------------------------	------------

Report of the Board of Supervisory Directors	120
--	-----

Corporate Governance Report	122
-----------------------------	-----

Executive Board, Directors and Managing Directors of KfW Bankengruppe	129
---	-----

Members and tasks of the Board of Supervisory Directors	130
---	-----

Images	133
--------	-----

Imprint	134
---------	-----

“Entrepreneurial initiative and the assumption of social responsibility belong inextricably together.”



DR ULRICH SCHRÖDER
Chief Executive Officer

The future viability of companies, globalisation, climate and demographic change – these are major challenges we must face up to. As one of the leading and most experienced promotional banks in the world, KfW is committed to the sustainable improvement of economic, social and ecological conditions.

KfW supports the German and the European economies on the road to globalisation. It creates the necessary structures in developing and transition countries for them to successfully participate in the increasing global trade. It is involved in environmental and climate protection to bring about positive changes for future generations.

The following pages explain how KfW meets today's challenges.

Major changes occur quietly.

KfW Bankengruppe focuses on long-term effects rather than short-term success. We think and act in time frames that extend far beyond the current financial year. We have chosen long exposure photography in the images of this Annual Report to communicate that taking responsibility for important contemporary issues has lasting value, and is not a snapshot of the situation as it currently stands. Visit our microsite www.kfw.de/verantwortung to listen to the real-time audio that goes with the pictures. This serves to create lasting images in our minds.

FUTURE VIABILITY OF COMPANIES

GLOBALISATION

ENVIRONMENTAL AND CLIMATE PROTECTION

DEMOGRAPHIC CHANGE

ECONOMIC STRENGTH IS NO SNAPSHOT;

IT IS A QUALITY ACHIEVED OVER THE COURSE OF MANY YEARS.

MAINTAINING IT REQUIRES EXPERTISE AND VISION.

WE ARE DRIVEN BY A DESIRE TO INCREASE COMPETITIVENESS.





Growth requires liquidity.
KfW keeps the economy flowing.

www.kfw.de/verantwortung

FUTURE VIABILITY OF COMPANIES

GLOBALISATION

ENVIRONMENTAL AND CLIMATE PROTECTION

DEMOGRAPHIC CHANGE



How can SMEs – as an economic driver – remain internationally competitive?

SMEs are the backbone of the German economy. SMEs produce major innovations that benefit Germany's competitive position: 3.55 million companies make fifty percent of all investments, employ two thirds of the entire working population, and qualify three fourths of all vocational trainees. However, this sector experienced liquidity and credit bottlenecks resulting from the financial market crisis.



*KfW provides
promotional funds
to get SMEs going.*

KfW promoted the SME sector with a record amount of EUR 28.5 billion in 2010. Domestic financing volume amounted to EUR 64.3 billion in 2010 (including securitisations of EUR 66.6 billion). This is the largest domestic financing volume in KfW's 61-year history. The companies financed used these funds to create 66,000 new jobs – in addition to the sector's existing 1.3 million. The demand generated by this financing resulted in maintaining an additional 1.0 million jobs in the entire German economy for one year. Thanks to KfW's support, the German SME sector has weathered the financial crisis and will be able to sustainably expand its innovation and competitive position in the future as well. As Germany's largest financier of the SME sector, KfW provides long-term investment loans as well as working capital finance. Such loans are partially subsidised through federal budget funds and thus granted at especially favourable terms.

We take responsibility for that.



FUTURE VIABILITY OF COMPANIES
GLOBALISATION
ENVIRONMENTAL AND CLIMATE PROTECTION
DEMOGRAPHIC CHANGE

CHANGE BRINGS OPPORTUNITY. WE SUPPORT COMPANIES

IN TAPPING NEW MARKETS

AND PURSUING THEIR INTERNATIONAL PATHS OF GROWTH.





Globalisation means building economic growth on a foundation of international trade relationships.



How can Germany benefit from globalisation and help make it fair?

Globalisation has fundamentally changed the overall economic environment. The global economy has never grown as strongly as in the past 20 years. An increasing number of countries have become involved in cross-border trading. Many developing and transition countries report impressive economic growth. At the same time, more than 925 million people around the globe are suffering from starvation.

The background of the page is a composite image. The top half shows a port with several large blue cranes against a hazy sky. The bottom half shows a city at night with lights reflecting on water. A large, semi-transparent orange triangle is overlaid on the left side of the page, containing the main headline text.

*KfW supports
German exports
and provides
development aid.*

Supporting German and European exports and keeping companies competitive on the global markets is one of KfW's tasks. We also work to reduce poverty, protect the climate, expand infrastructures, promote education and secure peace. We strive for globalisation that all people can benefit from. To this end, KfW has enabled long-term solutions in export and project financing as well as in its collaboration with developing and transition countries for many years.

We take responsibility for that.

FUTURE VIABILITY OF COMPANIES
GLOBALISATION
ENVIRONMENTAL AND CLIMATE PROTECTION
DEMOGRAPHIC CHANGE

INSTEAD OF AIMING FOR SHORT-TERM PROFIT MAXIMISATION,


WE FOCUS ON LONG-TERM DEVELOPMENT.

AND TAKE ACTION. SO THAT BASIC

RESOURCES ARE NOT COMPLETELY DEPLETED.



Reducing the impacts of global warming is one of the biggest international challenges of the 21st century.



*What actions can be
taken to combat global
climate change?*

Industrialisation and population growth have changed the world dramatically. Melting glaciers, rising sea levels and dangerous heat waves: Long-term ecological damage is becoming increasingly evident. A significant reduction in CO₂ emissions is necessary in order to combat global warming.



*KfW promotes projects
around the world that
invest sustainably in environ-
mental and climate protection.*

Environmental and climate protection is one of KfW's most important promotional focuses. KfW granted a total of EUR 25.3 billion for investments in environmental and climate protection in Germany and abroad in 2010. This corresponds to nearly one third of the total promotional funding volume of KfW Bankengruppe. In this way, KfW consistently advances the expansion of renewable energies. KfW supports energy-efficient construction and rehabilitation in the private sector in addition to construction of offshore wind farms and geothermal power plants. KfW is also a strong partner for modernisation projects in the municipal sector. It supports infrastructural improvements by funding the expansion of climate-friendly local public transport systems.

We take responsibility for that.

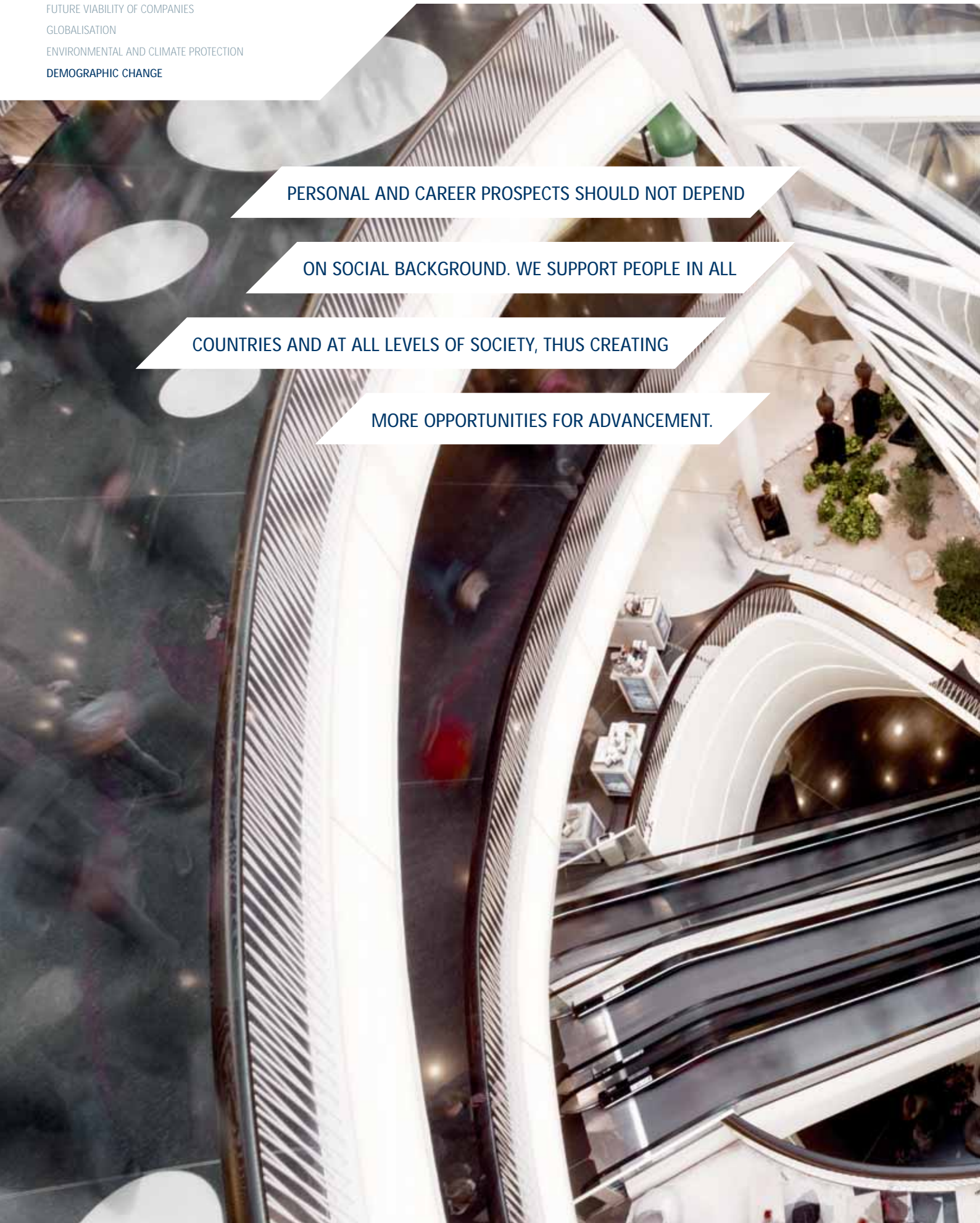
FUTURE VIABILITY OF COMPANIES
GLOBALISATION
ENVIRONMENTAL AND CLIMATE PROTECTION
DEMOGRAPHIC CHANGE

PERSONAL AND CAREER PROSPECTS SHOULD NOT DEPEND

ON SOCIAL BACKGROUND. WE SUPPORT PEOPLE IN ALL

COUNTRIES AND AT ALL LEVELS OF SOCIETY, THUS CREATING

MORE OPPORTUNITIES FOR ADVANCEMENT.





In good company: KfW is committed to maintaining cohesion in society.

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How should we react to a global population which is getting older and younger at the same time?

While industrialised countries' populations age and produce fewer offspring, the average age in developing and transition countries, as well as the size of their populations are rapidly increasing. By 2050, more than 27% of households in Europe will include occupants aged 64 and older. In South Africa, by contrast, the proportion of 15-64 year-olds will climb from the current 55% to an expected 66% by 2050. This demographic change impacts all of us. It affects social systems, education, the economy, global migration trends and above all cohesion in society.

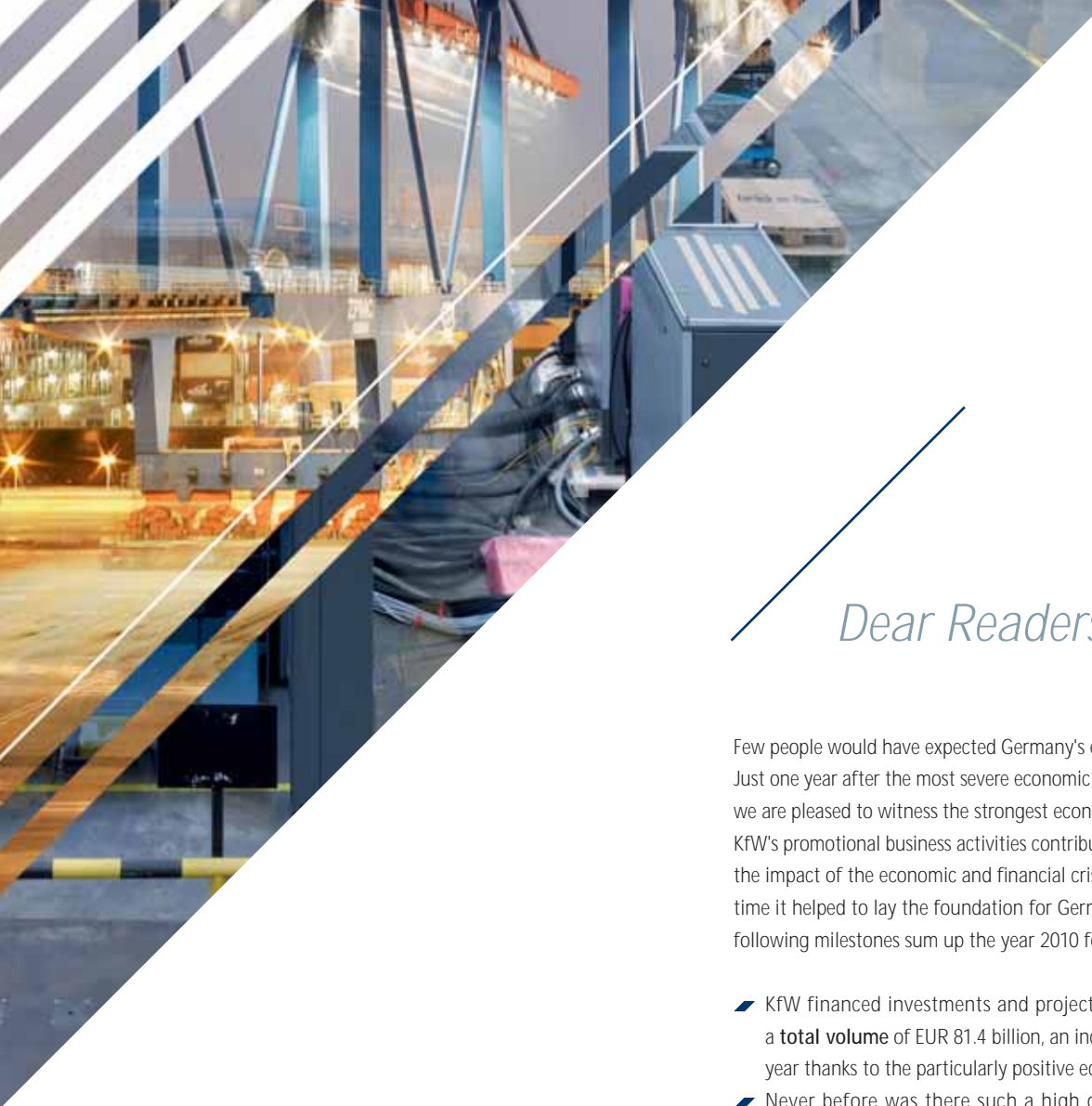


*KfW is planning
ahead for demographic
changes – in Germany
and worldwide.*

KfW is reacting to the new age structure. We are helping more and more people in Germany to own homes and we also fund accessible and senior-friendly residences. This is KfW's way of taking social responsibility for an aging society. It also supports the young generation both at home and abroad, as a means of aiding individual countries' social and economic development. Moreover, on behalf of the German Federal Government, it funds water supply and healthcare systems of developing and transition countries. It funds the development of social security systems for millions of people, thus strengthening future prospects in their respective home countries. KfW contributes to improving quality of life in Germany and around the world.

We take responsibility for that.





Dear Readers

Few people would have expected Germany's economy to recover so quickly. Just one year after the most severe economic and financial crisis since 1932, we are pleased to witness the strongest economic growth since unification. KfW's promotional business activities contributed significantly to mitigating the impact of the economic and financial crisis on enterprises. At the same time it helped to lay the foundation for Germany's economic recovery. The following milestones sum up the year 2010 for KfW:

- KfW financed investments and projects in Germany and abroad in a **total volume** of EUR 81.4 billion, an increase of 27% on the previous year thanks to the particularly positive economic situation.
- Never before was there such a high demand for KfW's financing programmes in **Germany**. In 2010 KfW provided EUR 66.6 billion to finance industry, the environment, housing and education in Germany. In the field of trade and industry alone, KfW extended loans in the sum of EUR 28.5 billion, predominantly helping small and medium-sized enterprises to stay afloat in the crisis. The KfW Special Programme played a very prominent role in this context. It helped to not only prevent a credit crunch but also to drive the recovery of the German economy.
- KfW's **international business** also increased strongly by 12% to EUR 15.0 billion. Strong demand for KfW IPEX-Bank's export and project financings continued from enterprises that were successful in quickly re-asserting themselves in global competition. The volume of commitments for operations in developing and transition countries also increased significantly.
- The current tasks to deal with the crisis had no impact on KfW's **environmental and climate protection** activities. One third of the entire promotional business volume - even more than the year before - went to domestic and international projects in energy-efficient technologies, renewable energies, forest protection and species conservation.
- In 2010 KfW and the Federal Government jointly prepared a new instrument aimed at improving **film financing** in Germany, which started in 2011. In this way we are responding swiftly and appropriately to the difficult financing conditions for film producers and are providing additional support for the economically relevant creative industries.

- In order to effectively address the emerging **eurozone debt crisis**, KfW granted a long-term loan of EUR 22.3 billion to Greece at the request of and with a guarantee from the Federal Government.
- Amid all its operational commitments, the **modernisation** of KfW remained on the agenda. Following the far-reaching modifications implemented over the last few years in the field of risk management and the restructuring of its domestic lending business, in 2010 the strategic reorientation of KfW's IT began under the motto entitled "IT Vision 2020", which is aimed at strengthening its performance capabilities in a sustainable manner. The strategic refocusing of KfW IPEX-Bank on German and European export and project financings was initiated as well. As this process evolved, Harald Zenke joined the Board of Management of KfW IPEX-Bank at the turn of the year 2010-2011. KfW also commenced its extensive "client orientation" initiative with a series of measures that include the relaunch of its internet presence and the strengthening of its marketing activities with the aim of catering to the educated consumer.
- As a promotional bank of the Federal Republic, KfW has committed itself to making responsible and transparent action comprehensible. The Board of Supervisory Directors and the Executive Board of KfW have decided to adopt the **Public Corporate Governance Code** (Public Corporate Governance Kodex – PCGK) of the Federal Republic. In order to implement the PCGK, in the course of the year 2010 KfW revised the By-Laws of KfW, modified the Rules of Procedure for the Executive Board and adopted new Rules of Procedure for the Board of Supervisory Directors. The new rules went into effect in 2011.
- The uniquely favourable framework conditions for KfW yielded an extraordinarily high **consolidated profit** of EUR 2.6 billion in 2010. KfW regards this as a special, exceptional result and considers it to be a good basis for the tasks ahead: it ensures the bank's long-term promotional capabilities and makes it easier for KfW to prepare for the tougher capital requirements under Basel III.

To support Germany, secure internationalisation and finance development – these were and continue to be KfW's great challenges. The bank has met them successfully, and it will continue to take responsibility for these challenges in the future as well.

■ "The record demand for KfW products in the year 2010 shows that we have offered the German economy the right solutions even during the crisis."

Results of the activities of the individual business areas

The **business area KfW Mittelstandsbank** made loan commitments in a volume of EUR 28.5 billion in 2010, a 20% increase on the previous year. Particularly in the focal area of environmental protection, commitments rose by 59% to EUR 11.1 billion due to the strong increase in demand for KfW's Renewable Energies Programme, among other factors. Increases were also recorded in the KfW Entrepreneur Loan and Innovation Finance programmes. Commitments rose to EUR 8.0 billion and EUR 2.1 billion, respectively.

One major focus was the **KfW Special Programme** which KfW successfully implemented in 2009 and 2010 as part of the economic stimulus packages of the Federal Government in order to avert a credit crunch, secure sufficient credit particularly for SMEs and assist in the recovery of the German economy following the deep slump in 2009. Nearly 5,000 applications for around EUR 13.3 billion were approved by the end of the year, mostly for small and medium-sized enterprises. The support had an immediate positive impact on employment: the investments carried out by these enterprises secured around 1.2 million jobs.

In the **business area KfW Privatkundenbank**, the overall volume of financing increased by 24 % to EUR 20.0 billion. While demand for financing under the programmes for energy-efficient construction and refurbishment stabilised on a high level of EUR 8.7 billion, demand for loans under the KfW Home Ownership Programme increased much more strongly to reach a volume of EUR 6.5 billion. Education finance also increased greatly. Loans for education and professional development totalled EUR 2.1 billion in 2010, an increase of 22 % on the previous year. The KfW Student Loan is also being well received. Currently around 53,000 young academics are financing their first course of study with a KfW loan.

Commitments in the **business area KfW Kommunalbank** increased strongly by 69 % to EUR 15.8 billion. Promotion of infrastructure in particular was

characterised by dynamic growth. Demand for the KfW Investment Loan was also strong, as was demand for the products offered for municipalities under the so-called "Investment Offensive" and the now discontinued Untied Municipal Loan. The global loan business with the special credit institutions of the federal states also developed very well, reaching EUR 9.2 billion by the end of 2010.

The **business area Export and Project Finance** also experienced strong demand. Commitments rose to EUR 9.3 billion. The financing products offered by KfW IPEX-Bank were particularly sought after in the sectors of transport and infrastructure as well as energy and environment. In what continued to be a difficult market environment, KfW's subsidiary supported German and European industry as a reliable partner. In line with internal



changes, KfW IPEX-Bank again is directing its business more strongly to the financing of German and European projects and exports, and it now also accommodates the requests of small and medium-sized enterprises for support as they look to internationalise their business.

In the **business area Developing and Transition Countries**, the financing volume rose by 26 % to EUR 5.7 billion. KfW Entwicklungsbank accounted for EUR 4.5 billion. It provided 50% of the financing from funds of its own to complement federal budget allocations. In this way, KfW was able to again increase its contribution to raising the commitment volume recognised as Official Development Aid (ODA). Three quarters of the commitments made in 2010 now count as ODA. With its commitment to environmentally and climate-relevant projects, which account for well over half of its overall

commitments, KfW Entwicklungsbank significantly expanded its position as an international climate and environmental bank.

Commitments by the KfW subsidiary DEG increased significantly after weaker results in the previous year. It committed EUR 1.2 billion for private sector investments in developing countries.

The **securitisation market** contracted very strongly during the economic and financial crisis but was kick-started again in a sustainable manner. KfW's securitisation volume was EUR 2.1 billion. Owing to their solid structures and the quality label "German Securitisation Standard", which was introduced by TSI in the summer, German securitisations again have a very good reputation. KfW was instrumental in developing these standards.



In its **funding operations** KfW Bankengruppe raised a total of EUR 76.4 billion in the international capital markets in 2010. Although the European sovereign debt crisis continues to keep the markets in suspense, KfW was able to assert itself as a leading issuer with its first-class credit quality and its equally transparent and reliable issuing strategy. The International Financing Review therefore voted KfW as best issuer of the year in its segment for its performance in the capital market.

Operating result in the financial year 2010

The extraordinarily good overall conditions in 2010 had an extremely positive impact on KfW's results for the year. The Group benefited from the significantly improved economic outlook, a relaxed risk situation and continued attractive funding conditions for KfW amid a low interest rate level.

The operating result before valuation was EUR 2.3 billion, a similarly high level as in the previous year. Thanks to its good funding opportunities, KfW was able to generate high net interest income despite interest rate reductions of EUR 558 million. It was able to significantly reduce risk provisions for lending business overall as a result of the surprisingly fast recovery of the world economy, in continuation of the bank's conservative risk policy. The securities portfolio also yielded positive effects on the result in spite of the eurozone sovereign debt crisis.

At EUR 2.6 billion, KfW achieved record net interest income in the 2010 financial year - certainly a one-time result, but one that provides a good basis for meeting future challenges. The loss carried forward from the IKB rescue was fully reversed and additional reserves were formed. This secures the bank's long-term promotional capabilities and makes it easier for it to prepare for the tougher capital requirements under Basel III.

Outlook

As the economic recovery progresses, we expect demand for promotional loans from KfW to normalise in the course of the year 2011. Programmes that were indispensable for many enterprises which had struggled under the crisis have fulfilled their purpose and were discontinued as planned at the end of 2010. In other fields of activity KfW continues to be called upon to

act as a financier. As a "bank behind the banks" KfW always operates on a subsidiary basis. It closes financing gaps in areas of particular economic importance - and specifically where the market has weaknesses.

Both industry and society face the same challenges after the crisis as they did before the crisis. They must commit to securing the sustainability of enterprises, embracing globalisation as an opportunity, managing the consequences of climate change, responding to dwindling energy supplies and natural resources, and adapting to demographic change.

For over 60 years KfW has been providing orientation and impetus to find the right approach between meeting short-term economic needs and the more long-term goal of establishing the economic, social and ecological bases for the future. Sustainability and responsible action will in future be reflected even more strongly as the guiding principle of KfW's product range.


"We will push ahead with the modernisation of KfW so that we will be able to work successfully as a promotional bank in future as well. Besides orientating our promotional offers more consistently to the principle of sustainability, in the coming years we will also be focusing on improving our client orientation."

In order to reach our clients better, we want to expand our client orientation at all levels. In particular, we will streamline our promotional products and make them more transparent, and we will simplify the application and processing procedure - not least through the consistent use of our internet presence as our interface with banks and clients. The first steps towards creating the necessary technical conditions were taken last year, and step-by-step implementation is to follow in the coming years. However, our systematic modernisation strategy is intended to satisfy not only the evolving demands of clients but also the demands which the German Banking Act places on a professional bank.

A modern promotional bank must continually adapt to new challenges. The past years have illustrated that it is indispensable even in a modern, globalised economic world. We have been successful in our work to enable enterprises in Germany again to feel the wind at their back and to join in the recovery with renewed strength. We will persevere in our efforts to ensure that Germany as a business location is prepared for the challenges of the future. For this we take responsibility.



Dr Ulrich Schröder
(Chief Executive Officer)



Dr Günther Bräunig



Dr Norbert Kloppenburg



Bernd Loewen



Dr Axel Nawrath

WE PROMOTE GERMANY


We finance investments in the future by citizens in Germany, we finance SMEs so that the German economy remains strong, and we finance municipal and social infrastructure in order to advance structural change and the common good.

WE PROMOTE GERMANY

WE SUPPORT INTERNATIONALISATION

WE PROMOTE DEVELOPMENT





GAINING INDEPENDENCE WITH KfW START-UP LOAN - STARTGELD

Indira Selimi's dream of owning her own hairdressing salon has come true. Born in Kosovo, Indira grew up in the Rhineland area of Germany and gained a sound knowledge of her trade through her training and years of experience as a qualified hairdresser. She gained her master's license at the age of just 22. Indira Selimi knows what demanding customers want and seized the opportunity in 2010 to take over a flourishing hairdressing salon in a successfully-run hotel in the centre of Bonn.

With a start-up loan of EUR 20,000 from the KfW Start-Up Loan - StartGeld programme, Mrs Selimi was able to gain a firm financial footing for the takeover quickly and easily and to turn her dream of self-employment into reality.



*Made to measure: KfW Start-Up Loan –
StartGeld enables many people to
embark on a new career.*

WE PROMOTE GERMANY

WE SUPPORT INTERNATIONALISATION

WE PROMOTE DEVELOPMENT





STRONG FOUNDATIONS FOR LIFE PLANS

If you're going to live in natural surroundings, why not go the extra mile! That was Ms Geiss-Krapp's view, at least. After raising her children, the single mother set about her next project: building a new house in Solingen. Her son – now an architect – not only relied on the KfW financing programmes, but also on natural building materials such as untreated larch and flax as an insulating material. The low-rise building's environmental credentials are demonstrated by its green roof, solar-powered hot water supply and environmentally-friendly wood pellet heating.

The building was awarded 5th prize of the KfW Award 2010 as an outstanding example of energy-efficient and sustainable living (more on the KfW Award on p. 48).



A creative solution for a new home: the solid wood house combines environmentally-friendly building techniques with today's requirements for sustainable living.

WE PROMOTE GERMANY

WE SUPPORT INTERNATIONALISATION

WE PROMOTE DEVELOPMENT





EDUCATION AT THE HIGHEST LEVEL WITH THE ENERGY-EFFICIENT REFURBISHMENT – MUNICIPALITIES PROGRAMME

When the Ebingen grammar school in Albstadt moved into its new building in 1972, its technology and energy efficiency were state-of-the-art. To ensure that the school can soon make this claim again, the local authority decided in 2009 on an extensive energy refurbishment project for the building. The school's energy efficiency is to be brought to the level of a new building by 2011 in several construction phases. KfW is supporting the project with two loans from the Energy-Efficient Refurbishment – Municipalities programme, amounting to just over EUR 1.5 million. Thanks to KfW's help, the school's 1000-plus pupils will soon benefit from an energy-efficient and cutting-edge learning environment.



*Energy efficiency coming of age:
Ebingen grammar school in Albstadt
is in a class of its own thanks to the
energy refurbishment project.*

AT A GLANCE: DOMESTIC PROMOTION IN 2010

The bank is supporting the German economy and helping overcome the crisis with the KfW Special Programme

Germany's economic recovery is progressing faster than had generally been anticipated. The KfW Special Programme, launched at the end of 2008 and expanded in March 2009, has proved effective. As part of this programme, KfW helped companies secure financing with a commitment volume of EUR 6.2 billion. SMEs in particular benefited from this programme.

Around 94% of commitments went to small and medium-sized enterprises. The distribution by industry shows clearly that promotional loans are provided where they are most needed. The largest share went to those sectors that were hardest hit by the economic crisis: 13% of commitments went to metal production and processing, for example, and 12% to automotive and mechanical engineering.

KfW's commitment made an important contribution to mitigating the worst effects of the financial and economic crisis and to restoring confidence. Since the economic recovery was expected to continue in 2011, the KfW Special Programme was closed as planned at the end of 2010.

KfW's commitment mitigated the severe effects of the financial and economic crisis.

Renewable energy – a driver of sustainable growth

Renewable energy is now an important economic factor in Germany. Investment in electricity generation from renewable sources has provided a strong counterweight to the reticence of investors in other sectors that resulted from the financial crisis.

The KfW programmes therefore continued to play a major role in long-term financing for the renewable energies sector in 2010 and were in greater demand than ever, with a promotional volume of EUR 9.6 billion. KfW provided investors with debt capital on favourable terms.

In the renewable energies sector, KfW is not only helping to achieve the climate change mitigation targets set by the Federal Government; the investments financed for the installation of the necessary facilities are also reducing dependence on energy imports. The money this saves helps strengthen the domestic economy. According to a scientific study commissioned by the Federal Ministry for the Environment, 340,000 jobs were created or secured by the expansion of renewable energies in 2009 alone.

High demand for the KfW Student Loan

A total of 53,000 students currently receive KfW Student Loan payments, which they use to pay their living expenses while studying for their first degree. Of these loans, 21,590 were granted in 2010 alone. Students normally apply for the KfW Student Loan at the beginning of their studies. The programme enables students to enter university who are unable to rely on, or prefer to avoid, traditional sources of financing such as BAföG grants and loans, financial support from their parents or their own earnings. With its simple and flexible design, the KfW Student Loan therefore has an important place in private education finance.

KfW promotes over a million homes for the first time

With the housing loan and grant programmes, KfW Privatkundenbank promoted over a million homes in Germany in 2010, making them fit for the future. In addition, over 100,000 families were enabled to build or purchase their own homes through the KfW Home Ownership Programme.

The focus was on supporting modernisation measures to provide energy-efficient and accessible

housing. This allows KfW to provide solutions to two major challenges facing society – climate protection and demographic change. The energy efficiency measures for residential buildings promoted in 2010 alone will reduce CO₂ emissions by around 1 million tonnes per year.

Infrastructure Investment Offensive reaches successful conclusion

KfW Kommunalbank's Infrastructure Investment Offensive delivered a pleasing final performance. The financing provided at low interest rates for municipal infrastructure investments as part of the Federal Government's first stimulus package reached EUR 1.3 billion in 2010. After a modest start in April 2009, demand grew vigorously during 2010. Municipalities and municipal and social enterprises – particularly in structurally weak regions – were keen to make use of the funds. This was because the grants from the Federal Government's second stimulus package were increasingly being used up.



KFW PROMOTION IN STRONG DEMAND. MAJOR CONTRIBUTION MADE TO OVERCOMING THE ECONOMIC AND FINANCIAL CRISIS

KfW's promotional lending programmes were in stronger demand than ever in 2010. The focus was on implementing measures from the Federal Government's stimulus package – the KfW Special Programme in particular made a considerable contribution to securing the credit supply to companies. The promotional programmes involving domestic environmental and climate protection were also in greater demand than ever.

The domestic financing volume amounted to EUR 64.3 billion in 2010 (including securitisations of EUR 66.6 billion). KfW's promotional lending programme was in greater demand than ever before. The previous year's demand (EUR 49.2 billion including securitisations of EUR 50.9 billion), which was itself a record, was outstripped by 31 %.

Promotion for domestic environmental and climate protection also saw the highest demand in KfW's history. An annual saving of 6.6 million tonnes of CO₂ was achieved, with a record commitment volume of EUR 20.8 billion.

KfW helped finance total investments of EUR 84.5 billion, creating or securing around 2.4 million jobs for the year. In this way KfW made a major contribution to stabilising the economy.

Domestic promotion in stronger demand than ever

There was greater demand than ever before for domestic promotion in 2010. This totalled EUR 64.3 billion in 2010 (including securitisations of EUR 66.6 billion). This high encompassed all three promotional areas: KfW Mittelstandsbank, KfW Privatkundenbank and KfW Kommunalbank.

At EUR 28.5 billion, the economic promotion of KfW Mittelstandsbank alone represented a share of 43 % of total domestic promotional volume (a 20 % increase on the previous year's figure of EUR 23.8 billion). Financing SMEs and business start-ups was thus KfW's most important promotional focus, and will remain so. At EUR 6.2 billion, the KfW Special Programme has a considerable share: of 2,212 commitments, 94 % went to small and medium-sized enterprises. EUR 2.1 billion went to promoting innovation and EUR 11.1 billion to industrial environmental protection. The promotional programmes of KfW Privatkundenbank were also in stronger demand than ever before, with commitments reaching EUR 20.0 billion (24 % up on the previous year's figure of EUR 16.1 billion).

The promotion of SMEs and start-ups, together with environmental and climate protection, are and will remain KfW's most important promotional focuses.



Domestic promotional loan volumes¹⁾



¹⁾ Excluding securitisation: from 2000 to 2002 excluding promotional business DTA

The housing programmes reached a commitment volume of EUR 18.0 billion (as compared with EUR 14.4 billion in 2009). Of this total, EUR 8.7 billion was invested in energy-efficient modernisation and new builds alone. Also in strong demand was the KfW Home Ownership Programme (reaching EUR 6.5 billion, as compared with the previous year's figure of EUR 3.9 billion). As a result of the

high demand for the KfW Student Loan, promotion for education reached a record level of EUR 2.1 billion. At KfW Kommunalbank too, the previous year's demand was outstripped by far, reaching EUR 15.8 billion. In addition to general refinancing of the promotional institutions of the federal states, this was primarily attributable to the demand for municipal and social infrastruc-

ture projects, which amounted to EUR 6.1 billion. Overall, due to the high demand across all three areas, a record volume of EUR 20.8 billion was generated for environmental and climate protection measures. This makes environmental and climate protection KfW's most important promotional focus beside the economy.



GERMAN ECONOMY ON THE ROAD TO RECOVERY – SUCCESSFUL KfW MEASURES INCLUDED IN THE FEDERAL GOVERNMENT’S STIMULUS PACKAGE COME TO AN END

As part of the Federal Government’s stimulus packages (I and II), KfW has made substantial funds available since the start of 2009 on behalf of the Federal Government in order to mitigate the effects of the economic and financial crisis. The largest component went to businesses via the KfW Special Programme. Other funds were used to improve companies’ energy efficiency and to finance innovation projects. Energy-efficient and accessible housing were promoted via the Energy-Efficient Construction, Energy-Efficient Refurbishment and Senior-friendly Conversion programmes. In addition, structurally weak municipalities with budget difficulties were offered low-interest loans for important infrastructure projects as part of the Infrastructure Investment Offensive.

Renewable energies driving growth: KfW’s domestic environmental and climate protection

KfW’s promotional work backs sustainable development. Environmental and climate protection is therefore a central objective of domestic promotion and is offered through all three business areas – KfW Mittelstandsbank, KfW Privatkundenbank and KfW Kommunalbank.

KfW’s industrial environmental protection promotion

The bank offers businesses promotional loans for investment in renewable energies, environmental protection and energy efficiency with the KfW Renewable Energies programme and the ERP Environmental Protection and Energy Saving programme.

Renewable energies

KfW’s Renewable Energies programme makes a key contribution toward achieving the Federal Government’s climate protection targets.

According to the Federal Government’s Energy Concept, the proportion of electricity generated from renewable sources is planned to reach 35 % of gross electricity consumption by 2020. The proportion of renewable energies in total energy consumption for heating is to reach 14 % by 2020. Considerable investment will be required to reach these targets.

The “standard” component of the KfW Renewable Energies programme promotes investment in power generation plants. This includes, for example, installing photovoltaic and wind-energy systems. KfW provides investors with access to long-term financing options.

The “premium” component promotes special measures for renewable energy use in the heating market by providing low-interest loans, repayment of which is subsidised with funds from the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. Small companies receive a particularly favourable interest rate in this programme component. A large proportion of the investments promoted in the “premium” component is spent on local heating networks that are supplied with heat primarily from renewable energy sources. This mainly includes waste heat from biogas plants, and heat from biomass or deep geothermal systems. In this way, KfW facilitates construction of the structures necessary for the long-term supply of regenerative heating generated locally and regionally.

The record result for the renewable energies area also includes loans from the KfW Renewable Energies – Supplement programme. The supplement programme was launched as part of the government’s stimulus package in 2009. This financed projects for regenerative heat and electricity generation with funding requirements between EUR 10 million and EUR 50 million.

The proportion of electricity generated from renewable sources is targeted to reach 35 % of gross electricity consumption by 2020.

ERP Environmental Protection and Energy Saving Programme

KfW's ERP Environmental Protection and Energy Saving programme promotes both general environmental protection measures, such as waste and wastewater, and energy efficiency measures by SMEs as part of the Special Fund for Energy Efficiency in SMEs.

Investments in energy efficiency measures in particular were increased considerably in 2010. As in previous years, measures focused on buildings, building services and energy technology, and plant retrofitting, including cross-cutting technologies.

Energy efficiency is becoming an increasingly important issue for companies due to rising energy prices and political initiatives. Industry, commerce, trade and the service sector represent a significant proportion of total German energy consumption at 44%. Potential savings are between 5% and 20% depending on the sector and the size of the company.

KfW uses the Special Fund for Energy Efficiency in SMEs to encourage small and medium-sized enterprises to invest in energy saving measures.

New focus for promotion: Environmentally-Friendly Retail

KfW launched a new promotional focus on environmentally-friendly retail within the ERP Environmental Protection and Energy Saving Programme in July 2010. The particular focus here is on energy-intensive sectors such as food retail, drugstores and supermarkets. The programme promotes the construction of commercial property, the planning and redesign of sales areas and the replacement of outdated heating and cooling systems.

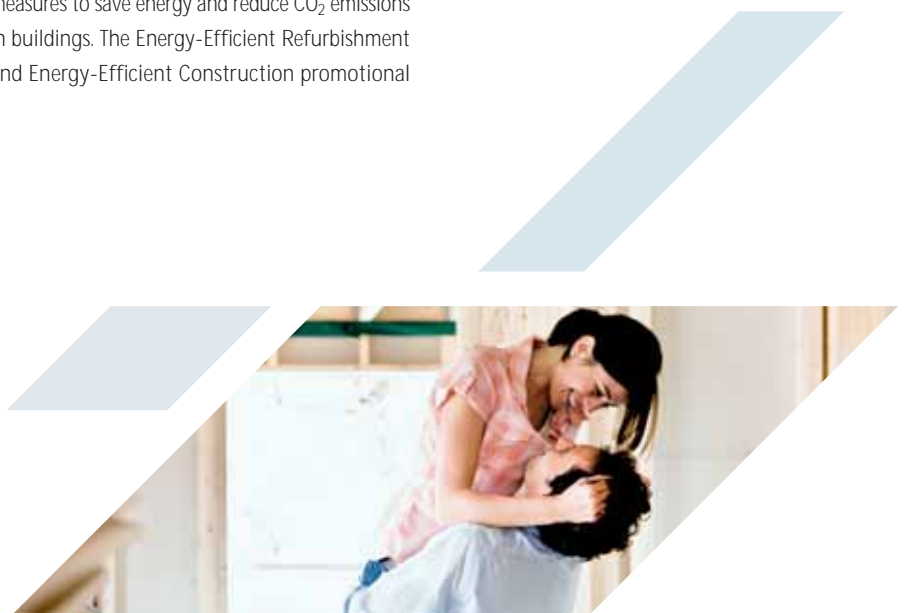
It creates incentives for environmentally and climate-conscious conduct in the retail industry. This is becoming increasingly important for customers too. The investments allow retailers to benefit from low consumption costs that remain stable, and create a significant competitive advantage.

Promoting energy efficiency in residential buildings

Together with the Federal Ministry of Transport, Building and Urban Development, KfW promotes measures to save energy and reduce CO₂ emissions in buildings. The Energy-Efficient Refurbishment and Energy-Efficient Construction promotional

programmes provide financing for energy modernisation measures in existing buildings as well as for the energy-efficient construction of new buildings in the residential sector. The financing terms are based on the statutory building regulations that builders must observe. However, KfW only promotes projects that are better than the legal minimum standard. The benchmark is set by the "KfW Efficiency House", now firmly established in the market. This is based on criteria set out by Germany's Energy Conservation Ordinance and offers a uniform national standard for assessing the energy efficiency of residential buildings. The KfW Efficiency House Label was introduced in collaboration with the German Federal Ministry of Transport, Building and Urban Development and the German Energy Agency dena as a seal of quality for energy efficiency.

KfW has established a reliable framework for the construction of new energy-efficient buildings and energy modernisation using the existing promotional structure; it can be used as a guide by industry, construction companies, tradesmen, private individuals and housing companies.



The promotional programmes are aimed at everyone who would like to invest in the construction of a new building or refurbishment of their own residential building that they either occupy themselves or rent out. The main promotional instrument is a low-interest loan to finance larger projects. The low interest rate is made possible by the use of Federal Government funds and KfW's advantageous refinancing opportunities on the capital markets. Those who undertake refurbishment to the KfW Efficiency House standards also benefit from a repayment bonus. This has applied since 2010 for high-quality new builds which meet the standards of KfW Efficiency House 55 and 40. The higher the energy efficiency of a building, the more attractive the financing from KfW. All housing promotion loans are provided through the builder's own bank. The builder's bank also assumes full liability for the loans granted. This ensures that the promotional funds go to creditworthy investors and economically viable projects. For smaller projects, there is also the option of applying directly to KfW for attractive investment grants. This offer is designed for private owners of single-family and two-family houses as well as homeowner associations.

The KfW Efficiency House, now firmly established in the market, sets the benchmark for energy-efficient refurbishment.

The promotional result for 2010 confirms that the KfW programmes for energy-efficient construction and refurbishment are being well received by the market. This is benefitting German SMEs and small trade businesses. In addition to the goal of reducing CO₂ emissions and energy consumption, the programmes also make an important contribution to advancing technical innovations, including the use of renewable energies.

The Federal Government's Energy Concept aims to reduce the primary energy requirement of buildings by 80% by 2050.

The promotional programmes also contribute to the achievement of Germany's ambitious climate protection targets. The Federal Government's Energy Concept aims to reduce the primary energy requirement of buildings by 80% by 2050. This will necessitate major investment in energy efficiency. The programmes for energy-efficient construction and refurbishment form the financial framework. Over the next few years KfW will continue developing the promotional standards with a view to achieving the long-term reduction target and further technical progress. KfW will be

reactivating the promotion of highly energy efficient individual measures in March 2011 – although at a more ambitious level – with the Energy Efficient Refurbishment programme, which was temporarily suspended in late summer 2010. This allows owners to decide whether to introduce individual measures in a series of steps or to modernise their residential property by creating a KfW Efficiency House in a single step.

Municipal environmental and climate protection

KfW Kommunalbank bundles the lending programmes that specifically support investment in municipal environmental and climate protection measures. The two programmes Energy-Efficient Refurbishment – Municipalities, and Social Investment – Energy-Saving Building Refurbishment provide reduced-interest loans to municipalities and municipal associations, community associations and non-profit organisations for energy-saving building refurbishment measures. The interest rate reduction is provided by the budget of the Federal Ministry of Transport, Building and Urban Development.

These programmes finance schools, school sports facilities, swimming pools, child day-care centres and buildings for work with children and young people.

The promotional result was slightly down on the prior-year volume. Demand for these products was thus slightly below expectations.

Likely reasons for this lie in the competing promotional measures offered for a limited period by the Federal Government's stimulus packages. KfW expects demand to increase again when the stimulus packages expire.

Domestic environmental and climate protection reaches record level

KfW remains one of the most important promoters of environmental and climate protection measures in Germany. A record promotional volume was achieved for environmental and climate protection in 2010. This supported not only investments in renewable energies in industrial environmental protection, but also measures to improve the energy efficiency of residential buildings and buildings belonging to municipal and social institutions. Environmental and climate protection accounts for around a third of total domestic promotion and is KfW's most important focus alongside economic promotion.

Domestic environmental and climate protection was in greater demand than ever in 2010, reaching a record volume of EUR 20.8 billion.

Of this total, EUR 11.1 billion was spent on industrial environmental protection, with the KfW Renewable Energies Programme accounting for a large share. The commitment volume increased by 74% year-on-year from EUR 5.5 billion to EUR 9.6 billion.

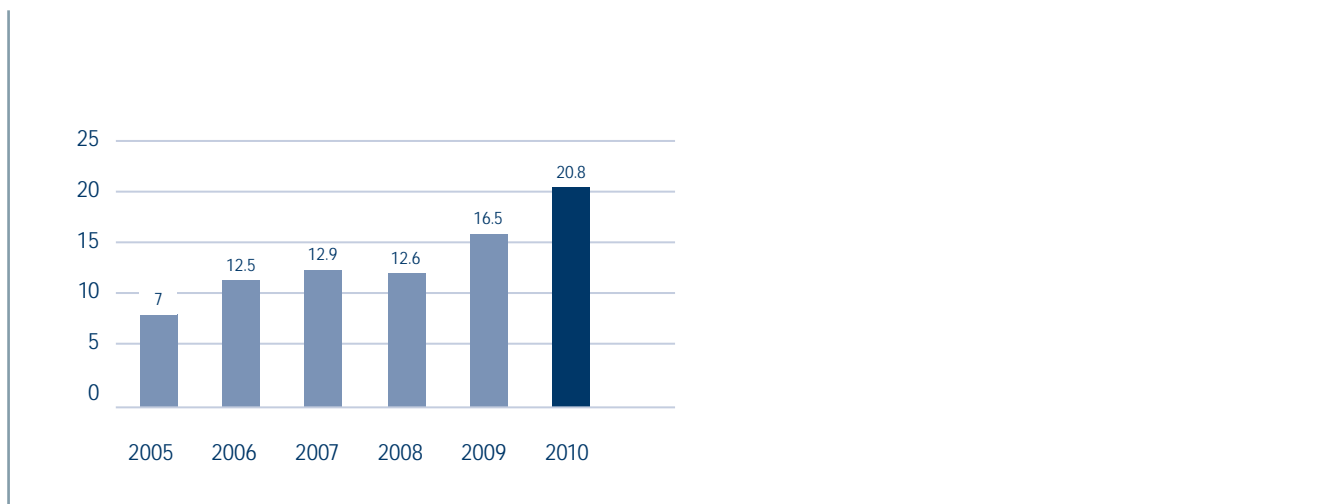
The programme for energy-efficient construction and refurbishment generated a promotional volume of EUR 8.7 billion, with demand remaining stable. This improved the energy efficiency of around 950,000 homes. Around 200,000 of these reached the KfW Efficiency House level.

Loans totalling EUR 847 million were extended for infrastructure measures.

This led to savings of 6.6 million tonnes of CO₂ (p. a.) and created or secured over 800,000 jobs for a year (provisional estimate). This made a major contribution toward stabilising the economy.

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Development of the promotional business volume in domestic environmental and climate protection (EUR in billions)



BUSINESS AREA KfW MITTELSTANDBANK

The KfW Mittelstandsbank business area supports SMEs, start-ups and the self-employed by offering attractive financing and professional advice. Support ranges from the financing of start-ups through general investments to the financing of innovations.

SMEs: post-crisis optimism about the future

Macroeconomic development has been the main factor in companies' demand for investment loans. Following the unprecedented crisis year 2009, the German economy began to recover around the middle of 2010. Germany's traditionally strong export industry then resumed its position as growth driver after its sharp decline in 2009, proving to be the main contributor to economic development for the whole of 2010. The domestic economy also increasingly benefited from the impetus provided by foreign trade.

Companies showed more signs of optimism regarding the future and expected domestic demand to rise considerably in 2011, despite existing global economic risks. Given these improved market prospects, companies made a greater number of expansion investments in 2010. The investments companies made in new equipment and plants as well as commercial buildings in 2010 rose by a total of around 6 % year-on-year. However it must be borne in mind that this increase started from a low basis, as gross fixed capital formations declined heavily in crisis-ridden 2009. Nonetheless we can assume that the upturn in the German economy will continue on the whole in 2011.

assets were implemented at the start of 2010. In its new offering of flexible working capital models, KfW gives companies more freedom in covering their financial requirements. The high number of working capital loans granted reflected companies' tight liquidity situations.

Due to recovery in the overall economic situation and banks' increasing willingness to lend, demand for the KfW Special Programme was lower than in 2009. On the other hand, demand for KfW Entrepreneur Capital was again higher. Both of these developments indicate that lending to companies has gradually returned to a normal level in Germany. For this reason, the KfW Special Programme ended as planned at the end of 2010. After concluding the KfW Special Programme, KfW plans to develop its existing product range based on the lessons learned from the programme.

 KfW co-financed investments under the KfW Special Programme in 2009 and 2010 totalling EUR 12.7 billion, thus securing around 1.2 million jobs for one year.

The high number of working capital loans granted reflected companies' tight liquidity situations.

KfW Special Programme

KfW set up its "KfW Special Programme" to assist companies during the economic and financial crisis, as part of the Federal Government's two packages of measures. With constant further developments made to the programme at the beginning of 2010, support was continuously adapted to better meet companies' needs. For example, various improvements, such as extended fixed-interest periods and longer loan terms for long-term

Start-up financing at KfW

Start-up entrepreneurs are often the people whose ideas keep the wheels of the economy turning. Start-ups and young companies provide important impetus for strengthening competition and economic structural changes, as well as for growth and job creation. For new enterprises to be able to realise their economic potential in the long term, they must first survive the difficult start-up phase. This is precisely where their business plan is put to the test. Since a large number of start-ups exit the market after just a short time, it is essential to have a sufficient number of start-up companies. Fortunately, KfW Research results now show an upturn in start-up activity in Germany despite the recent economic crisis. Of note in the findings is that migrants are playing a significant role in reviving the start-up sector. One in five start-ups in Germany is now founded by a member of this group.

In addition to ideas, courage and the essential element of good luck, start-up entrepreneurs also need sufficient financing. Even if many entrepreneurs start small or found enterprises in sectors without too much investment expense, many of them experience significant difficulties in obtaining financing to meet their needs. Many start-up and micro entrepreneurs require only small loans, which are seldom lucrative for banks. Moreover, the risk associated with start-up financing is often relatively high due to the lack of collateral.

For these reasons, supporting start-ups and young companies is an important promotional area of KfW Mittelstandsbank. A comprehensive range of promotional products is available under special start-up support programmes, such as "KfW Start-Up Loan – StartGeld" and the broad programmes like KfW Entrepreneur Capital. KfW will continue to give special priority to financing start-ups in future, and thus further expand its promotional offerings in this area.

 In 2010, around 7,100 start-ups received a total of EUR 220 million under the "KfW Start-Up Loan – StartGeld" programme alone. Under this programme KfW assumes 80% of the credit risk from the start-ups' own banks.


SMEs and young companies generate key impetus for strengthening competition.

ERP Regional Promotion Programme: broadening the scope of promotion

Under its ERP Regional Promotion Programme, KfW has supported investments in economically disadvantaged regions on particularly attractive terms for many years. To channel promotional funds to these regions, interest is offered at lower rates with the help of ERP funds. In 2010 the scope of promotion under this programme was broadened. This means that now more medium to long-term investments are being funded through loans extended at particularly low interest rates.

ERP Innovation Programme: KfW innovation financing

With its ERP Innovation Programme, KfW is making an important contribution to financing innovation in SMEs in economically difficult times. This is because innovations are a major factor in creating promising new products, processes and services – particularly in times of crisis.

 The commitment volume of the ERP Innovation Programme totalled EUR 814 million in 2010, around one third of which went to small enterprises with fewer than 50 employees. An additional 68% was granted to medium-sized enterprises with fewer than 250 employees.

Equity finance at KfW

KfW Mittelstandsbank provides a broad offering to support private equity financing in late-stage and venture capital investment. Two such important programmes are the ERP Start Fund and the new German SME Equity Fund.

ERP Start Fund

Since its inception in 2004, the ERP Start Fund has become KfW's flagship in early-stage venture capital finance. The programme helps young companies that cannot pledge any collateral to obtain financing in order to develop new technologies.

To this end, KfW and a co-investor make an equity investment in a company. KfW provides funds on the same financial terms as the co-investor. In 2010 KfW increased its share in such co-investments from 50% to 70%, and raised its limits: The maximum investment per technology company is now EUR 6 million, with single investments limited to EUR 2.5 million.

German SME Equity Fund

The recession reduced the capital resources many SMEs had built up in the previous years. This threatened to curb their growth and innovation.

An equity fund launched by KfW and Commerzbank addresses the needs of many small and medium-sized enterprises by offering flexible and entrepreneur-friendly financing. The German SME Equity Fund has a total volume of up to EUR 500 million. Commerzbank and KfW each contributed just under EUR 100 million when setting up the fund in mid-2010.

The two founding partners commissioned Afinum Management GmbH to manage the fund. This is a private equity firm located in Munich that specialises in SMEs.

An equity fund launched by KfW and Commerzbank addresses the needs of many small and medium-sized enterprises by offering flexible and entrepreneur-friendly financing.

Industrial environmental protection financing at KfW

KfW surpassed all expectations in financing domestic industrial environmental protection. The high commitment volume for investments in renewable energies merits special mention. The ERP Environmental Protection and Energy Saving Programme created a new promotional focus in the middle of the year with the Environmentally-Friendly Retail Programme. Further details on industrial environmental protection financing are provided in the section entitled "KfW's domestic environmental and climate protection".

Demand for KfW Mittelstandsbank's programmes the strongest ever in the history of KfW

In 2010, KfW Mittelstandsbank once again increased its result year-on-year. The new high is due in particular to the strong rise in demand in the KfW Renewable Energies Programme.

The previous year's high level of demand was maintained in the general promotion of businesses and start-ups. The KfW Special Programme also made a significant contribution to the 2010 result.

And in promotion of innovation, the result was also improved year-on-year.

 In 2010 demand for loans from KfW Mittelstandsbank programmes rose by 20% to reach a new record high. The volume of commitments amounted to EUR 28.5 billion (as compared with EUR 23.8 billion in 2009).

This was due to the very strong increase in demand for industrial environmental protection, for which a total of EUR 11.1 billion was committed. This represents a 50 % increase year-on-year. The KfW Renewable Energies programme was a major contributor to this, with commitments of more than EUR 9.4 billion – an increase of 74 % over the previous year.

The volume for general promotion of business and start-ups totalled EUR 15.3 billion, EUR 6.2 billion of which was accounted for by the KfW Special Programme alone.

Loans totalling more than EUR 2.1 billion were granted for innovation projects, thus exceeding the previous year's figure by 64 %.

KfW Mittelstandsbank's financings in 2010 served to co-finance investments worth EUR 41.4 billion. This secured or created a total of 1.7 million jobs for one year. KfW Mittelstandsbank thus made a major contribution to supporting the German economy and was a major help to the country in overcoming the economic crisis.

The new high can be attributed to the strong rise in demand for industrial environmental protection promotion.

Volume of promotional financing of the business area KfW Mittelstandsbank as at 31 December 2010

Programmes	Promotional business volume		Purpose
	2009	2010	
	EUR in millions	EUR in millions	
Total KfW Mittelstandsbank	23,766	28,504	
Start-ups and general investments	15,480	15,272	
KfW Special Programme	7,162	6,176	Corporate investments under the economic stimulus measures
KfW Entrepreneur Loan	6,365	8,006	Investments of start-ups and SMEs
KfW Entrepreneur Capital	291	251	Mezzanine finance to support start-ups and SMEs
KfW Start-Up Loan – StartGeld (start-up funds)	165	220	Financing for start-ups and small enterprises
ERP Regional Promotion Programme	351	473	Improving the regional economic framework
ERP Participation Programme	66	90	Private equity for small and medium-sized enterprises
Special financing economic stimulus packages	786	–	
Other promotional programmes	294	56	
Innovation	1,291	2,119	
ERP Innovation Programme	1,220	814	Mezzanine finance to support innovation projects by small and medium-sized enterprises
ERP Start Fund	71	80	Private equity for young innovative technology companies
Special financing R&D	–	1,225	
Environment	6,996	11,113	
ERP Environmental Protection and Energy Saving Programme ¹⁾	1,324	1,455	Environmental protection projects in Germany
KfW Renewable Energies Programme ²⁾	5,508	9,591	Measures to promote renewable energies, e.g. photovoltaic systems
ERP Environment - Commercial Vehicles (including grant programme)	81	21	Acquisition of energy-efficient commercial vehicles above 12 tonnes
BMU Environmental Innovation Programme (including grants)	84	46	Projects with demonstrative character in the area of environmental protection

Differences in the totals are due to rounding

¹⁾ Including the previous ERP Environmental Protection and Energy Saving Programme and ERP Energy Efficiency Programme (in 2009)

²⁾ Including the previous KfW Environmental Protection Programme and Solar Power Generation, KfW Renewable Energies programme (in 2009)

Commitments by the business area KfW Mittelstandsbank in 2010, by federal state



Federal state	Volume EUR in millions ¹⁾
Bavaria	5,136
North Rhine-Westphalia	4,167
Baden-Württemberg	3,958
Lower Saxony	2,963
Hamburg	2,668
Schleswig-Holstein	1,188
Rhineland-Palatinate	1,125
Hesse	1,085
Brandenburg	863
Saxony	655
Saxony-Anhalt	633
Thuringia	461
Mecklenburg-Western Pomerania	397
Berlin	304
Saarland	267
Bremen	249
No information ²⁾	1,604
Abroad	781

¹⁾ Including global loans to commercial banks

²⁾ Not attributable to a particular federal state

BUSINESS AREA KfW PRIVATKUNDENBANK

The KfW Privatkundenbank business area focuses on promoting housing and education. With the housing loan and grant programmes, KfW finances not only home ownership, but also energy efficiency and physical accessibility in residential buildings. Owners can take advantage of the Energy Efficient Refurbishment, Senior Housing Conversion (increased accessibility) and Housing Modernisation (general modernisations) programmes for modernising existing residences. The Energy-Efficient Construction Programme and the KfW Home Ownership Programme are available for constructing new houses. The latter can also be used to acquire owner-occupied homes and shares in housing cooperatives. The programmes are also frequently used in combination.

Promoting housing

In 2009, promotion of energy-efficiency in housing was bundled together in the two programmes Energy-Efficient Construction and Energy-Efficient Refurbishment, under the Federal Government's economic stimulus programme. The objective of the two programmes is to promote energy-efficient construction projects or refurbishment measures for housing by offering low interest rates and grant opportunities. Further information is provided in the section entitled "KfW's domestic environmental and climate protection".

KfW also promotes home ownership and general modernisation measures under its KfW Home Ownership and Housing Modernisation programmes. The KfW Home Ownership Programme introduced in 1996 is a standard product for housing promotion, which KfW uses to support home ownership in Germany using own funds. The financing terms enable the programme to be used as a source of inexpensive subordinated financing. As only a maximum of 30% of the total cost is financed, borrowers use the KfW Home Ownership Programme mainly to supplement loans provided through their own bank. The KfW Home Ownership Programme has funded around 1.2 million home builders since its inception. The highest loan volume since discontinuation of the homeowner subsidy was recorded in 2010. KfW finances measures to modernise residential accommodation under its Housing Modernisation programme. Demand for this programme has also increased sharply in comparison to 2009.

Senior-friendly Conversion

The increasing proportion of older people in the population is causing demographic change in Germany. To enable all individuals to lead independent lives within their own four walls regardless of age and physical mobility, housing needs to be modified over the next few years in line with the changing population structure. KfW is therefore jointly funding housing accessibility conversions in conjunction with the Federal Ministry of Transport, Building and Urban Development. Low-interest promotional loans along with the investment subsidies introduced in 2010 have been used, for example, to add lifts, construct ramps in place of steps, widen doorways and adapt bathrooms. This funding benefits not only people whose mobility is limited as a result of age or disability, but also families with children.

Through the terms of its programme KfW has, for the first time, defined a uniform national standard for improving accessibility in residential accommodation. Prior to that, no generally recognised practical market standards for the construction of accessible housing were in place. The terms of promotion provide the housing market with an important frame of reference for designing accessible buildings.

KfW is continuing its systematic development of promotion for accessible housing in 2011 as well, in order to continue making the programme more attractive.

The terms of promotion provide the housing market with an important frame of reference for designing accessible buildings.

KfW-Award 2010

KfW presented the KfW Award for the eighth time in 2010. This year's award went to private builders who creatively closed a gap between buildings in a city-centre location either by constructing a new building or by replacing an old one, while at the same time meeting current demands for energy efficiency and sustainability in housing. The objective of the KfW Award was to draw attention to construction deficits and opportunities in urban spaces and for model projects in those locations to encourage people to think more about constructing new buildings and replacing old ones. Numerous builders from across Germany took part in the competition by submitting their projects. The jury selected five projects as the final winners which, in the jurors' opinion, fulfilled the competition's requirements superbly.

Learning and studying – KfW Bankengruppe financing products get top marks

In the year under review, KfW Bankengruppe provided more funding for education – which is so key to the future of society – than ever before. This support frequently enables people to study who would otherwise be unable to do so, or enables students to shorten the length of time they need to complete their studies and graduate with a good degree. Of all KfW's products, the KfW Student Loan has enjoyed the most widespread impact. As KfW's own programme, it has complemented the government financial aid system since 2006 as a third source of financing for post-secondary education in addition to the BAföG (loans and grants) and scholarships. Borrowers receive an average of EUR 480 per month to finance their living expenses, with a maximum of EUR 650 possible. The amount may be adjusted each semester. The rise in demand is due to a number of reasons. Firstly, the KfW Student Loan is increasingly being perceived as offering people who might otherwise be unable to embark on a degree course an opportunity to do so. Secondly, the interest rates

attached to this attractive and flexible product are currently quite low. Last but not least, the uniform conversion of the school system across Germany from 13 to 12 school years by 2016 has also had a noticeable effect.

Already a strong partner to the Federal Government and the federal states, KfW consolidated the important role it has played in financing education in Germany since 1996. The numbers of applications and loans granted rose again dramatically year-on-year in the programmes offered by the Federal Government and the federal states, which KfW implements on their behalf. The number of applicants and funding increased for the Master BAföG programme in summer 2009. In spring 2009, the period of support for the Education Loan, which grants financial support to school pupils and students in advanced stages of their studies regardless of their income and means, was also adapted to meet the requirements of the current educational landscape. After BAföG aid in the form of interest-free government loans and grants expire, recipients receive low-interest funding via a BAföG bank loan. Moreover, KfW has been commissioned by Lower Saxony and Bavaria to provide loans to finance tuition fees in the federal states.

Record result for KfW Privatkundenbank

KfW Privatkundenbank increased its 2009 record result yet again in 2010. The demand for promotional programmes in housing was very good. In addition to the Energy-Efficient Construction, Energy-Efficient Refurbishment and Senior-friendly Conversion programmes, KfW's own Home Ownership and Housing Modernisation programmes were also very popular. These programmes were again the major contributors to the new promotional record. As a result of increased demand for the KfW Student Loan, a year-on-year increase in commitment volume was also achieved in the area of education.

The KfW Student Loan is the most important loan financing instrument for students.

Demand for the housing and educational programmes of KfW Privatkundenbank was higher than ever before, reaching a promotional volume of EUR 20.0 billion – a year-on-year increase of 24 %.

EUR 18.0 billion was provided for housing. Funds totalling EUR 8.7 billion were delivered through the programmes for energy-efficient construction and refurbishment. The Senior-friendly Conversion programme reached a volume of EUR 211 million. With commitments of EUR 8.5 billion, KfW's Home Ownership and Housing Modernisation programmes surpassed the previous year's figure of EUR 5.2 billion by 65 %.

Using these funds, KfW financed more than 1.2 million homes in 2010. Energy efficiency was improved in more than 950,000 homes, and accessibility improved in more than 18,800.

Thus, KfW Privatkundenbank not only supported investments of EUR 35.0 billion but also helped secure and create 566,000 jobs for one year.

The volume of commitments for education rose by 22 % from EUR 1.7 billion in the previous year to nearly EUR 2.1 billion in 2010. This was due to the dramatic increase in demand, in particular for the KfW Student Loan. A total of 21,590 students opted for the KfW Student Loan in 2010. KfW Student Loan disbursements are currently being made to a grand total of 53,000 students. Commitments totalled EUR 260 million under the Master BAföG programme, supporting around 57,000 individuals. BAföG bank loans provided support to 8,500 people in fiscal 2010. A further 14,000 applied for an Education Loan in the same period. On behalf of Lower Saxony and Bavaria, KfW granted 3,500 loans to finance tuition fees.

Volume of promotional financing of the business area KfW Privatkundenbank as at 31 December 2010

Programmes	Promotional business volume		Purpose
	2009	2010	
	EUR in millions	EUR in millions	
Total KfW Privatkundenbank	16,094	20,025	
Housing	14,407	17,973	
Energy-Efficient Construction and Refurbishment ¹⁾	8,864	8,746	Energy-efficient construction of new homes and energy modernisation of residential buildings
<i>Energy-Efficient Construction</i>	3,094	3,654	
<i>Energy-Efficient Refurbishment</i>	5,769	5,092	
Senior-friendly Conversion	213	211	Conversion of residential accommodation to improve accessibility
KfW Home Ownership Programme	3,851	6,528	Acquisition and construction of owner-occupied property
Housing Modernisation	1,308	1,988	Modernisation of residential buildings
Global loans to the housing industry	170	500	
Education	1,687	2,052	
AFBG (Master BAföG)	242	260	Continuing professional development
BAföG government loans	625	662	Academic study
Education Loan	71	96	
BAföG bank loans	44	37	
KfW Student Loan	680	970	
Tuition fee loans	25	27	

Differences in the totals are due to rounding

¹⁾ Including the previous "CO₂ Building Refurbishment", "Housing Modernisation – ÖKO-PLUS" and "Ecological Construction" programmes

BUSINESS AREA KfW KOMMUNALBANK

The KfW Kommunalbank business area combines the promotion of municipal and social infrastructural investments, implementation of various assignments commissioned by the Federal Government and KfW's entire global loan business under one roof. The latter business is composed of various components; KfW offers the promotional institutions of the federal states the opportunity to implement KfW promotional programmes through programme-based global loans and thus to pursue their own promotional focuses. General refinancing is an instrument which makes inexpensive KfW funding available to the promotional institutions of the federal states, enabling them to implement their goals pursuant to their respective by-laws. The financing needs of small and medium-sized enterprises, and private builders, can be met with customised funding delivered through global loans to commercial banks and Landesbanks. The global loans in Europe are ultimately an instrument to stimulate clearly defined areas of financial support at European level.

Promotion of infrastructure

KfW promoted municipal investments in structurally weak regions and in municipalities with budget difficulties through the Infrastructure Investment Offensive, under the Federal Government's first stimulus package.

The low-interest loans funded by the Federal Ministry of Transport, Building and Urban Development served to boost the municipalities' infrastructural investments and support them at a high level, even during the global financial crisis. The funds helped reduce the considerable increase in investment backlog in municipal infrastructure. At the same time this investment activity also generated the desired economic impetus, and stimulated job creation and protection.

After the commitment volume had remained significantly below expectations in 2009, demand for the Infrastructure Investment Offensive funds picked up sharply in the course of 2010. This delayed development, with a final spurt at the end of 2010, was due to increasing utilisation of the second stimulus package, plus the long advance planning for major infrastructural investments.

Commitment volume in the Infrastructure Investment Offensive for the year under review totalled EUR 1.3 billion as at the end of 2010. Investments totalling EUR 2.8 billion were initiated in this area, helping secure or create 44,000 jobs for one year. The commitment volume of the Infrastructure Investment Offensive in 2009 and 2010 (EUR 1.9 billion) benefitted primarily the new federal states (EUR 804 million) and Berlin (EUR 179 million) along with Bavaria (EUR 309 million) and Lower Saxony (EUR 247 million).

As a supplement to the Federal Government's economic stimulus packages, which are available only for a limited period, KfW offers municipalities the opportunity to receive individual financing offerings tailored to their needs under the two programmes Investment Loans for Municipalities and Investment Loans for Municipalities – Flexible (IKK and IKK flex). The energy-efficient refurbishment of public buildings such as schools or day-care centres, for example, is promoted via the Energy-Efficient Refurbishment – Municipalities programme, and the Social Investment – Energy-Saving Building Refurbishment programme by means of low-interest loans. Further information is provided in the section entitled "KfW's domestic environmental and climate protection".

After the commitment volume had remained significantly below expectations in 2009, demand picked up sharply in the course of 2010.

Global loans in Germany

KfW has closely cooperated with the promotional institutions of the federal states in Germany and concluded global loans with them on the basis of its promotional programmes for more than ten years. Pooling KfW's promotional support and that of the promotional institutions in the federal states improves the conditions for programmes in the individual state programmes. This means that investment measures in municipal infrastructure, SMEs and housing as well as energy-efficient refurbishment of buildings, for example, can be financed from a single source. The German promotional landscape thus becomes more transparent, while customers benefit from low-interest targeted support. KfW also grants global loans as part of general funding of the promotional institutions of the federal states. These loans are used to fund joint statutory promotional activities in the individual federal states.

The bank grants global loans to commercial and Landesbanks too. This promotional instrument is focused mainly on SMEs and private builders. The global loan business in 2010 largely involved loans extended under the KfW Special Programme as part of the Federal Government's economic stimulus packages.

Global loans in Europe

KfW Kommunalbank supports selected promotional measures in other European countries besides Germany. Pent-up demand for investments in infrastructure as well as in commercial enterprises persists, particularly in central and eastern Europe. Some of this funding is granted on behalf of the European Commission. The European Commission provides supplemental grants and grants administered by KfW and the Council of Europe Development Bank (CEB) for product development and consulting (2010: EUR 4.7 million). In 2010, KfW provided long-term financing solutions for central and eastern Europe in the form of global loans totalling EUR 340 million, 60% of which were granted to SMEs, 28% for energy efficiency and infrastructure projects and 12% for the energy-efficient refurbishment of homes.

Moreover, an innovative loan programme worth EUR 60 million for investments in German schools abroad (worldwide) was financed in cooperation with the Federal Foreign Office.

Demand for KfW Kommunalbank's programmes the strongest ever in the history of KfW

KfW Kommunalbank exceeded its prior-year result. The strong demand for infrastructure promotion, particularly for the Infrastructure Investment Offensive and the Investment Loans

for Municipalities (IKK, IKK flex), was a major contributing factor. There was also strong demand for the Unrestricted Municipal Loan (UKK) – which expired as scheduled at the end of 2010. As demand for global loans also rose year-on-year, global loan cooperation activities based on KfW programmes were also further expanded. Cooperation in general refinancing also developed very strongly in 2010. KfW Kommunalbank's result generated further significant economic impetus for municipal infrastructural investments. The 2010 volume of lending is distributed more or less in proportion to the number of residents in each federal state.

Commitments of EUR 15.8 billion show that demand for KfW Kommunalbank programmes is stronger than ever.





One major contributory factor was demand for infrastructure promotion, which generated a total commitment volume of EUR 6.1 billion – a substantial increase of EUR 2.0 billion over 2009. The Infrastructure Investment Offensive with promotional measures worth EUR 1.3 billion, and Investment Loans for Municipalities (IKK, IKK flex) worth EUR 1.9 billion, accounted for a large portion of this result. Added to this was the Unrestricted Municipal Loan (UKK), with a commitment volume of around EUR 1.8 billion.

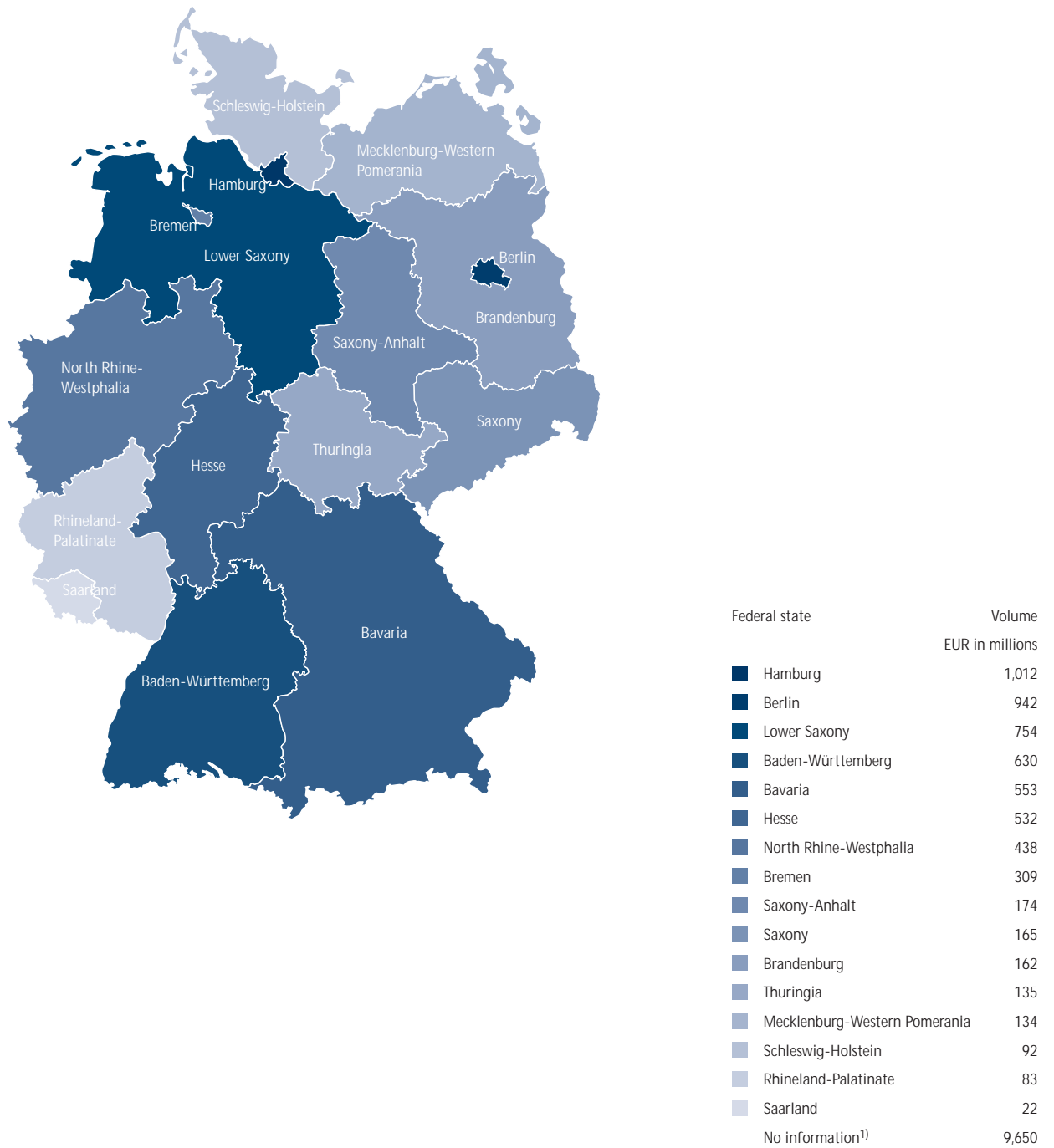
Demand for global loans also developed very positively, with commitments totalling EUR 9.7 billion (as compared to the previous year's figure of EUR 7.4 billion). The volume of contracts for general funding thus stands at EUR 9.2 billion (as compared to the previous year's figure of EUR 7.3 billion). In addition, around EUR 400 million was granted to European partners. Overall in 2010, KfW Kommunalbank funded investments in infrastructure totalling EUR 7.7 billion and helped to secure or create 124,000 jobs for a year.

Volume of promotional financing of the business area KfW Kommunalbank as at 31 December 2010

Programmes	Promotional business volume		Purpose
	2009	2010	
	EUR in millions	EUR in millions	
Total KfW Kommunalbank	9,358	15,787	
Infrastructure	1,982	6,137	
KfW Investment Loans for Municipalities (IKK, IKK flex)	529	1,925	Investment in municipal and social infrastructures, also with special reduced rate of interest in this case under the Infrastructure Investment Offensive within the regional promotional areas
Infrastructure Investment Offensive	604	1,292	
Social investment	349	704	
KfW Municipal Loan with financing window	143	0	
Municipal Investment	147	349	
Energy-Efficient Refurbishment – Municipalities	111	96	
Social Investment– Energy-Saving Building Refurbishment	19	18	Energy-efficient refurbishment of schools, school gymnasiums and swimming pools, children's day-care centres and buildings for work with children and young people
Unrestricted Municipal Loan	–	1,753	Investments in municipal and social infrastructure (unrestricted)
Financial guarantees	79	–	Financial guarantees to municipalities
Global loans	7,377	9,650	
General funding of the promotional institutions of the federal states	7,269	9,150	Global loans to fund the promotional institutions of the federal states
Global loans to commercial banks (domestic)	–	100	Global loans to promotional and commercial banks
Global loans Europe (western)	–	60	
Global loans Europe (central and eastern)	108	340	

Differences in the totals are due to rounding

Commitments by the business area KfW Kommunalbank in 2010, by federal state



¹⁾ Not attributable to a particular federal state

ASSET SECURITISATION AND CAPITAL MARKET-BASED PRODUCTS

The situation on the European securitisation markets improved over the course of the year. Whereas only EUR 19 billion or 5 % of total securitisation volume was sold to investors during 2009, around EUR 90 billion was placed with both public and private investors in 2010. This was around 25 % of the total volume of EUR 360 billion. As in the past few years, securitisations were primarily used for refinancing purposes.



The hope is that investors will gain renewed confidence in the securitisation market as a result of binding securitisation standards.

Investor demand rose above all for British and Dutch residential mortgage-backed securities (RMBS), as well as for German auto securitisations. Moreover, securitisation of German corporate loans was placed on the market in autumn 2010. KfW together with the European Investment Fund (EIF) opted for early participation as anchor investors.

These success stories cannot, however, hide the fact that investors have yet to return to the securitisation market to a sufficient extent. In many cases transactions could only be realised if they were supported at an early stage by investors.

KfW has resumed its investor activities in this environment. It participated as anchor investor in securitisations totalling around EUR 1.1 billion in the year under review.

KfW was a key participant in developing TSI's "German securitisation standard" label along with other banks and the Association of German Banks. This seal of quality introduced by TSI in summer 2010 defines key quality criteria, such as:

- The securitisation originates from the bank's existing business; i.e., there are no loans in the securitised portfolio that were granted on an "originate to distribute" basis.
- Publicly accessible and largely standardised reporting
- The same lending process standards for securitised and non-securitised loans
- The transactions have an appropriate deductible to be paid by the banks of at least 5%.

TSI applied this standard to certify three transactions in the second half of 2010, which were also placed with investors.



Securitisation remains an important component in providing the economy with credit. Fully functioning securitisation markets are thus gaining crucial significance because lending to the economy will face new challenges next year.

Firstly, changes in the regulatory environment are significantly increasing the requirements faced by banks. The need for additional equity, in particular, will make lending more difficult. Secondly, European banks report a very high demand for medium to long-term refinancing. They will only be able to meet this if they can use the entire range of covered refinancing including securitisation. For this reason, KfW will continue to support the long-term revitalisation of the securitisation market and its products and activities in 2011, inter alia within the TSI framework.

- KfW will participate as investor in the securitisation of SME, lease and mortgage portfolios in order to provide banks and leasing companies with medium to long-term liquidity for lending to their customers.
- The securitisation platforms PROMISE and PROVIDE will also be available in 2011.

In its capacity as a promotional institution, KfW is thus assuming responsibility, and will make use of its opportunities to support lending during the economic upswing.

Refinancing of Export Loans Covered by Federal Guarantees

KfW created the promotional programme Refinancing of Export Loans Covered by Federal Guarantees, scheduled to run until 31 December 2010, to secure lending to the German export economy. Under this programme, KfW provided interested banks with long-term liquidity of around EUR 1 billion in 2010 for refinancing export loans that were eligible for support. KfW is continuing the promotional programme with modified terms in 2011.



SALES AREA DEFINES NEW FOCAL AREAS

The KfW Sales department carried out an extensive modernisation of its activities in 2010. The approach was based on a comprehensive analysis of customer behaviour and the distribution process for financing and promotional products. This market study provided important information on existing sales activities and for developing new sales strategies.

Overall satisfaction with KfW was reported by 91% of final commercial borrowers and 95% of private customers.

Comprehensive survey of customers and business partners

A telephone survey was conducted of 500 private and business customer advisors and 100 independent financial brokers in January, with the aid of two financial market research institutes. This was followed by a written survey of more than 1,800 final borrowers in April. This group included entrepreneurs, SMEs, housing companies, and private customers of the housing construction programmes. This representative study provided a comprehensive analysis of customer satisfaction. Survey respondents were asked about product satisfaction, service quality and the KfW Sales department, and about the application process. It is precisely this aspect that has a major influence on the overall satisfaction of final borrowers.

The result of this survey was thoroughly positive. Trustworthy, inexpensive, reliable, secure and competent – these were some of the assessments of KfW by private customers in construction and housing, commercial final borrowers and customer advisors from banks. Overall satisfaction with KfW was reported by 91% of final commercial borrowers and 95% of private customers. In addition to this undoubtedly positive evaluation, the market research nonetheless also revealed potential for optimisation in the delivery of information to end customers and in terms of transparency of the promotional offering. KfW began working on these issues during the course of the year. As the primary information medium for the end customer, the website was structured more clearly and gradually expanded in order to target the various customer groups. In order to make the promotional programmes as a whole clearer for end customers and their banks, as well as bank

The idea behind the new website is to provide access to the desired information with fewer clicks.

advisors, KfW has begun to simplify and standardise programme conditions. The process also includes redesigning the communication media for the promotional products.

New website strengthens customer focus

The new KfW Bankengruppe website went online at the beginning of December 2010. The pages, which now sport a contemporary design, are designed to meet the needs of each target group. They have been restructured and most of them completely revised. The new navigation structure makes it easier for users to find their way around the site. The KfW Mittelstandsbank, KfW Privatkundenbank and KfW Kommunalbank portals were combined and placed in the new "Domestic Promotion" portal, which can be directly accessed at www.kfw.de.

The idea behind the new website is to provide access to the desired information with fewer clicks. Thanks to considerably improved user guidance, customers can now find the products relevant to them more quickly. A new programme finder in the domestic promotion portal enables an interactive search for the right promotional programme and then combines the information on KfW promotional funding and loans. With the help of new online tools, users can find the ideal promotional programme more quickly. They also receive tips on new information for particular sectors or professions.

The "My KfW" section gives customers access to online banking for educational products. This section contains online applications, tips for a

bank meeting and important additional information. Advisors and sales partners can also find information here that has been specially prepared for them (currently available in German only).



Customer advisory services directed at target groups

KfW customers have access to comprehensive information and advisory services in their search for a suitable product. The bank offers these services primarily online and through its infocenters, but also in personal consultations at trade fairs and information events. Its information and services are aimed at start-ups and established businesses as well as self-employed and private customers. However, it also targets social institutions, municipalities and the housing sector.

Website

The Internet has been firmly established for a number of years now as the main medium for customers and partners to seek initial information. Based on this year's market survey and the high demand for online information, KfW is now continuously expanding its Internet offering. The KfW website tallied a total of around 15.3 million visits and approximately 77.7 million page views in 2010. Approximately 9.6 million of these visits were for the domestic promotional business information offering, with a total of around 59.2 million page views. Interest focussed primarily on information on the promotional offering for the private customer and housing sector target groups.

Personal consultation

The personal consultation is the second important pillar in customer support. KfW's infocenters form the main points of contact for this service. There,

customers have the opportunity to obtain direct answers from a KfW advisor to questions they have concerning KfW's promotional offering and financing of planned investment projects.

The infocenters answered a total of around 893,000 written and telephone customer requests received in 2010. Of these, 38 % concerned the promotional offering in the housing sector, 45 % education, and 17% the offering for start-ups and established enterprises.

KfW financing experts presented the promotional offerings at 43 regional and 13 national trade fairs as well as at around 450 information events across the country. A total of 16,600 interested parties also took the opportunity to obtain a personal consultation.

KfW achieved focused end customer contact for particular sectors and target customer groups through specific partnerships and cooperation arrangements. Around 1,500 interested parties received information they were seeking on KfW products at 26 events.

Customer and business partner feedback is very important for the further development of the promotional programmes and advisory services. KfW also received around 4,600 complaints in 2010, which it considers very important to deal with and answer individually.

The KfW website tallied a total of around 15.3 million visits and approximately 77.7 million page views in 2010.

Economy on tour – a successful campaign returns

KfW expert advisors boarded the KfW information bus as part of the relaunch of the "Economy on tour" information campaign, stopping at 21 cities between 14 April and mid-June. The natural gas-fuelled bus clocked up a total of 4,296 kilometres traversing Germany. Requests from private individuals dominated this year's meetings in market squares around the country. The majority of visitors were interested in KfW's energy-efficient refurbishment programmes. The most popular of these were the promotional products for insulating buildings, replacing heating or installing modern windows. As in 2009, many SMEs also took the opportunity to obtain a personal consultation at the information bus or at the additional information evenings organised by KfW together with the local chambers of industry and commerce and chambers of trades and crafts. In many cases, the local events also received support from the federal states' promotional banks.

To coincide with the tour, KfW and the Federal Ministry of Economics and Technology together launched the online "Market of opportunities". Internet users can access a multimedia presentation of the comprehensive KfW programme offering that provides all the important information on target groups, programme content and the application process on a microsite created just for this purpose: konjunktur-auf-tour.kfw.de (available in German only).

The most important thing in sales: the sales partners

Promotional products are mainly distributed via the tried and tested system of banks and savings banks as on-lending institutions. The promotional institutions of the federal states have also been an important partner for many years. These institutions step to the forefront when they offer customers a common financing product consisting of KfW promotional funds together with funds from the respective federal state.

When financing education, KfW collaborates not only with banks but also with student unions and financial service providers. Regional partners such as chambers of industry and commerce, chambers of trades and crafts and energy agencies have also been involved as the first customer contact under the advisory support grant programmes.

A number of information channels are available to sales partners who have questions about the product range and specific financing needs. In addition to personal contact via the infocenters, KfW provides its sales partners with a specific information offering via the online KfW Advisors' Forum. A monthly average of 28,500 visits to the KfW Advisors' Forum alone was recorded in 2010. An intensive dialogue maintained at events held for the individual banking sectors and central bank training seminars rounds off the information offering for sales partners.

Key sales partners receive comprehensive personal support for all issues relating to KfW promotional products under Key Account Management. The team was an expert contact point for the key sales partners in some 6,200 cases in 2010. Moreover, it constitutes the central point of contact for accreditation of new sales partners. This also includes initial provision of information on products and the processes relating to the application procedure. Around 60 institutions expressed an interest in first-time accreditation as sales partners in 2010. Foreign banks' interest in accreditation for financing investment projects in renewable energies was of particular note.

Special offers for multipliers

Multipliers constitute a special target group in the distribution of promotional products. This group includes institutions and individuals with the potential to generate distribution support for KfW, or public opinion-makers regarding issues that are important to KfW. Multipliers include, for example, management consultants, tax advisors, associations, chambers, economic development corporations, architects, technical planners,

A monthly average of 28,500 online visits to the KfW Advisors' Forum alone was recorded in 2010.

official experts and non-profit institutions. Multipliers gain a great deal of information through contact with their own clients or members, concerning financing requirements, utilisation willingness and how KfW's promotional offerings are dealt with. For example, they can help clients prepare specifically for the talks with the bank or provide support in the acquisition of funds.

Personal support for advisors, associations and chambers

Banks remain KfW's most important sales partners. After all, they convey the promotional products to the commercial and private customers. The market studies conducted in the course of the year, however, show that the role multipliers play in the distribution of promotional products should not be underestimated. For example, nearly all companies work together with a tax advisor, with whom they discuss investments and how to finance them. If the tax advisor is well informed about KfW promotional programmes, he or she can include them in his or her thinking and help the company – his or her customer – to save money. The same applies in the housing sector for architects, technical planners and energy consultants. Associations also function as information brokers to their members. For this reason, KfW actively supports advisors, associations and chambers, systematically providing them with information.

In order to address multipliers systematically, KfW offers lectures by its own speakers across the country. It also organises events such as the KfW Forum, provides promotion-related information through the KfW Academy, and holds events on specific issues together with partner associations. Editorial contributions and articles in association newsletters, for example, along with online platforms jointly operated with chambers and trade associations round off the offering.

Advisory support – grants for utilising management consultants

In cooperation with regional partners, KfW offers start-ups and SMEs the opportunity to use the services of an external management consultant. These advisory services are subsidised. Interested parties can select a suitable advisor from a pool of more than 24,000 experts around the country through KfW's Consultant Exchange, which was developed in collaboration with the Federal Ministry of Economics and Technology. More than 37,000 grants were provided for such advisory services last year.

The lion's share of around 28,500 commitments was for "Start-up coaching in Germany". This is offered by KfW in collaboration with the European Social Fund (ESF), the Federal Ministry of Economics and Technology and the Federal Ministry of Labour and Social Affairs. It serves to increase the prospects of success and sustainably ensure newly formed enterprises for the first five years, and for start-ups following unemployment for one year.

The figures for commitments rose by about one third year-on-year. Nearly three quarters of commitments went to start-ups following unemployment. They receive particularly high financing in the first year of their self-employment.

Market studies have shown that the role multipliers play in distribution should not be underestimated.



Energy efficiency advice ensures efficient climate protection and improved competitiveness for SMEs

The Special Fund for Energy Efficiency in SMEs is a joint initiative of the Federal Ministry of Economics and Technology and KfW. It has provided around 4,700 enterprises with a grant to cover up to 80% of the costs for independent and qualified advice on energy efficiency. Weaknesses in a company's energy consumption habits are identified, and proposals made for specific measures for improvements that can save both energy and costs.

KfW has provided more than 11,000 grants for energy efficiency advisory services since the programme was launched in February 2008. The importance of commercial energy efficiency is highlighted once again as a benchmark for international competitiveness in the Federal Government's Energy Concept of 28 September 2010. Bearing that in mind, this successful programme to promote qualified and independent energy advice to SMEs will also be expanded and further developed as needed.

"Round table" and "turn around" advisory services

KfW's regional partners are the first point of contact for companies experiencing difficulty; these are usually the chambers of industry and commerce and the chambers of trades and crafts.

Around 2,400 companies requested "round table" crisis advisory services in the year under review. They received support from the Federal Ministry of Economics and Technology's "round table" special fund.

Approximately 40,000 companies have received grants for crisis advice since 1995. In a further step, "turn around" advice builds on the results of the round table. Another 1,700 companies were supported in this way by the European Social Fund. KfW's implementation of a new online application platform shortened the waiting period between submitting an application and funding being granted.

KfW has provided more than 11,000 grants for energy efficiency advisory services since the programme was launched in February 2008.



WE SUPPORT INTERNATIONALISATION

In order to reach its full potential, the export sector needs not only open markets, but also the appropriate financing for the transactions conducted. KfW IPEX-Bank's structuring expertise and in-depth knowledge of the relevant industries ensure that this is provided.

WE PROMOTE GERMANY

WE SUPPORT INTERNATIONALISATION

WE PROMOTE DEVELOPMENT





FULL STEAM AHEAD FOR CLIMATE PROTECTION

The building of the new gas and steam power plants Sohar II and Barka III in Oman is not just one of KfW IPEX-Bank's contributions to supporting the German and European economies. It also marks a new milestone in global environmental and climate protection. Thanks to German high-tech exports, these state-of-the-art plants will save millions of tonnes of carbon dioxide as of 2012. Each plant is being built around two powerful gas turbines from Germany. A consortium involving the German company Siemens AG and the Korean GS Engineering & Construction Company are responsible for constructing both plants. Through its financing solution, KfW IPEX-Bank contributed around USD 380 million to the total investment volume.

Sohar II and Barka III: German technology for the next generation of energy production.

AT A GLANCE: EXPORT AND PROJECT FINANCE IN 2010

Within KfW Bankengruppe, KfW IPEX-Bank is responsible for international export and project financing. It grants financing in order to support the German and European economies. Its prime focus is on medium and long-term lending to boost the export economy, develop economic and social infrastructure, and support environmental and climate protection. These tasks are derived from KfW's legal mandate.

New ambulances and mobile clinics: an important step for Ghana toward establishing a western-style healthcare system.

Ambulances for Ghana: faster medical help

The Republic of Ghana is using German workmanship to improve the levels of medical care in rural areas. In March 2011, Wietmarscher Ambulanz- und Sonderfahrzeug GmbH (WAS) will begin delivering to this West African country more than 150 vehicles that have been converted into ambulances and mobile clinics. This medium-sized enterprise is based in Lower Saxony and is the European market leader in ambulance conversions. KfW IPEX-Bank is committed to supporting this export champion, and is providing the necessary finance for its new major contract with Ghana. The loan volume totalling over EUR 10 million was structured using Hermes coverage – i.e. with an export credit guarantee issued by the Federal Government. KfW IPEX-Bank was also able to provide low-interest capital from the ERP Special Fund. For the purchaser, the Republic of Ghana, the ambulances and mobile clinics are an important step toward establishing a western-style healthcare system. In the past, many people in the provinces have had poor access to medical care.

Nord Stream is making a substantial contribution to securing the long-term energy supply in Europe, particularly in Germany.

The Baltic Sea pipeline: Energy on tap

The Nord Stream natural gas pipeline connects Western Europe to the gas fields of Russia. In the future, the Baltic Sea pipeline will be used to

deliver a large portion of additional gas supplies to the European Union. This is one of the most important infrastructure projects on the continent at the moment. Through it, Nord Stream is making a significant contribution to Europe's – and especially Germany's – long-term energy security. KfW IPEX-Bank is providing a major part of the financing for this key project, and is the mandated lead arranger for the transaction. KfW IPEX-Bank is also bringing its extensive environmental expertise to the project. The first section of the gas pipeline, which will measure 1,220 kilometres in total and have an annual capacity of around 27.5 billion cubic metres, is to enter service in as early as 2011. When the second construction phase is complete, the Nord Stream pipeline will be able to transport up to 55 billion cubic metres of gas annually from 2012, enough to supply around 26 million households with energy. Nord Stream is an international joint venture of Gazprom, BASF/Wintershall, E.ON Ruhrgas, Nederlandse Gasunie and GDF SUEZ. This cross-border infrastructure project is setting new standards for cooperation between the European Union and Russia.

Offshore wind farm puts wind in the sails of renewable energies

Trianel Borkum West II is the largest municipal offshore wind project in the German North Sea – and the one that most emphatically reflects the commitment to climate policy targets of the parties

in the Bundestag. Europe's first municipal wind farm funded through project finance will start operation over an area of 56 km² from summer 2011.

This EUR 700 million-project is designed to supply 200,000 households with green electricity. The investor Trianel Windkraftwerk Borkum GmbH & Co. KG is an association of 34 municipal utilities providers and other energy suppliers from Germany, Austria, the Netherlands and Switzerland. Loans totalling EUR 550 million are being provided to finance the project. A further EUR 43 million of funding will come from the European Energy Programme for Recovery (EEPR). A total of eleven banks are involved in the financing alongside the European Investment Bank (EIB). KfW IPEX-Bank's roles for the banking syndicate include that of expert assessor. The Trianel wind farm Borkum West II is located approximately 45 kilometres north of the East Frisian island of Borkum, and is adjacent to Alpha Ventus, Germany's first offshore wind farm.

infrastructure in northern Europe. The ferry line between Rostock and Gedser (Denmark), which dates back many years, will see existing capacity double when the new ships are launched. From mid-2012 onward, each crossing will carry up to 1,500 passengers and 90 lorries or 460 cars. The ferries will load vehicles on two levels, meaning that the time needed for loading and unloading will remain at 15 minutes despite the doubling of capacity. The vessels' propulsion system allows them to be fuelled with LPG. Fuel consumption and emissions will be reduced to a minimum to make the ships' operation efficient and environmentally friendly. The financing provided by KfW IPEX-Bank includes a loan of almost EUR 140 million covered by Euler Hermes, which will mature in 2024. The transaction will be financed using the German ship financing CIRR (Commercial Interest Reference Rate).

The Scandlines contract will allow the ship building group to develop new technologies that will boost their international competitiveness.

Infrastructure: German ships on course

KfW IPEX-Bank is securing jobs in Germany by financing the building of two new ferries. The state-of-the-art RoPax ferries are being built at the P+S shipyard in Stralsund. They will be launched for the German-Danish shipping company, Scandlines. The building of the new ferries is important not only because of the capacity that will be used at the shipyards in Mecklenburg-Western Pomerania. The contract will also allow the ship building group to develop new technologies that will boost their international competitiveness. As well as strengthening the German export economy, the Scandlines contract will have a direct impact on



KFW IPEX-BANK – WE SUPPORT INTERNATIONALISATION

With almost 60 years of experience in export and project finance, KfW IPEX-Bank is the original export bank. Yet it is also a modern institution. As a result of the strategic process launched in early 2010 it has now strengthened its profile as a specialist financier. Mandated to promote the competitiveness and internationalisation of the German and European economies, it focuses on providing medium and long-term financing to support key industrial sectors in the export economy. It also finances the development of economic and social infrastructure, supports environmental and climate projects and helps secure Germany's supply of raw material.

The export industry makes a major contribution to German and European economic growth and prosperity.

Particularly in Germany, but also in the rest of Europe, the export industry is a cornerstone of the economy and makes a major contribution to economic growth and the prosperity of the population. KfW IPEX-Bank's financing offering is designed to support companies in this industry, which means helping them to compete in the global market and thus secure jobs and income in Germany. Besides major export-oriented companies, key clients of KfW IPEX-Bank include a large number of SMEs, many of which have achieved a leading position on international markets in their field of expertise. Industrial production is crucially dependent on access to the relevant raw materials. Through its finance products KfW IPEX-Bank aims to help place Germany's raw materials supply on a sustainable footing. The supply of energy sources and special metals for cutting-edge technology ensure that domestic industry can consolidate and enhance its global competitiveness. This also protects jobs in Germany.

Modernising power generation is an important step towards sustainable climate protection.

The increasing exchange of goods and services around the world and the convergence of markets demand continual expansion of infrastructure and transport. As one of the leading banks in international project financing, KfW IPEX-Bank promotes the expansion and development of road, rail, energy and data networks, as well as the financing of ships, aircraft and rail vehicles. It also finances the expansion of social infrastructure in the water management sector, as well as the building and modernisation of hospitals, schools and administrative buildings.

Climate change and the consumption of finite resources are at the top of the global agenda. Modernising power generation is an important step towards sustainable climate protection. The use of renewable energy sources is also a major key to success. German industry leads the way in developing and successfully marketing innovative and effective solutions for energy generation. KfW IPEX-Bank supports this process by delivering tailored financing solutions. Its knowledge of the relevant industries and regional presence in important growth markets leave it eminently well placed to bolster the position of the German and European economies in these industries and ensure their long-term market success.

Slightly improved market environment for export and project finance

2010 saw an unexpectedly rapid recovery on the financial markets and in the real economy of many countries. The main global drivers of real economic growth were the emerging economies of Asia, while Germany was the driving economic force in Europe. An increase in export and infrastructure plans was seen in the course of the global economic recovery. This also led to higher demand for KfW IPEX-Bank's core product: medium and long-term financing. The total available financing offering of national and European commercial banks remained limited, however. This was largely due to balance sheet adjustment in response to the deterioration in the credit quality

of portfolios following the financial crisis. Banks were also more restrained in their lending in some cases, bearing in mind the higher capital requirements under Basel III. In general, however, the competition for low-risk and well-collateralised financing structures remained high among commercial banks. The syndication market for transferring risks between banks remained tight.

proach, together with its clients the bank developed sustainable solutions for critical operations. These enabled it to contribute to the long-term survival of companies and protect jobs in a difficult period for the market. In view of the recovery seen in the credit cycle since the 4th quarter, the bank anticipates that less support will be needed for existing commitments in 2011.

2010 again saw increased demand for medium and long-term financing – the core product of KfW IPEX-Bank.

KfW IPEX-Bank: Positive development of new business

In the market environment of 2010, KfW IPEX-Bank continued to live up to its role as a reliable partner of the export economy and as a financing partner for investments in infrastructure and transport, environmental and climate protection measures, and raw materials supply projects in Germany. The volume of new commitments totalled EUR 8.3 billion, which was slightly lower than the bank's planned figure for 2010. In addition, the bank made EUR 1.1 billion available in loans to refinance banks from the CIRR ship financing.

Despite the economic recovery, large investment projects in particular were often subject to difficult conditions relating to their profitability and the costs of debt servicing in 2010. However, KfW IPEX-Bank also stands by its clients during difficult project phases and times of crisis. As in the previous year, therefore, the bank dedicated itself to looking after existing lending operations, as well as acquiring new business. On the basis of its industry expertise and long-term business ap-

New commitments by business sector

KfW IPEX-Bank is a leading provider of international export and project finance. With its core product of medium and long-term financing, it supports internationalisation and helps maintain and enhance the worldwide competitiveness of German and European companies.

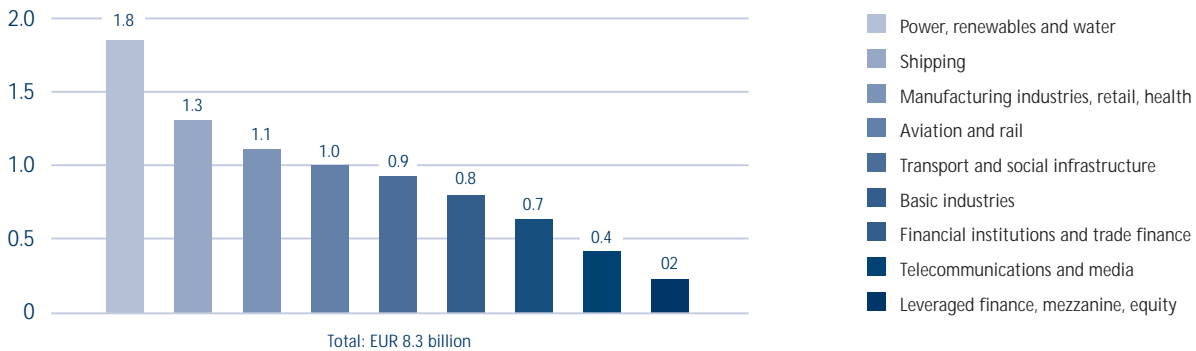
It has proven industry and market expertise in many sectors of the economy. These include the basic industries, manufacturing, retail and health, telecommunications and media, and power, renewables and water. In transport and industry its expertise is concentrated on the shipping, aviation and rail sectors, as well as transport and social infrastructure. KfW IPEX-Bank is one of the leading providers of financing, particularly for aircraft, ships and rail vehicles, as well as for the basic industries.

All business sectors of KfW IPEX-Bank made a positive contribution to the overall result in 2010. The business sectors energy and environment, shipping, transport, and manufacturing industries, retail and health all made large contributions to the overall result.

KfW IPEX-Bank is one of the leading finance providers for aircraft, ships and rail vehicles, and the basic industries.

It also stands by its clients during difficult project phases and times of crisis.

New commitments by business sector (EUR in billions)



Differences in the totals are due to rounding

Regional presence in target markets

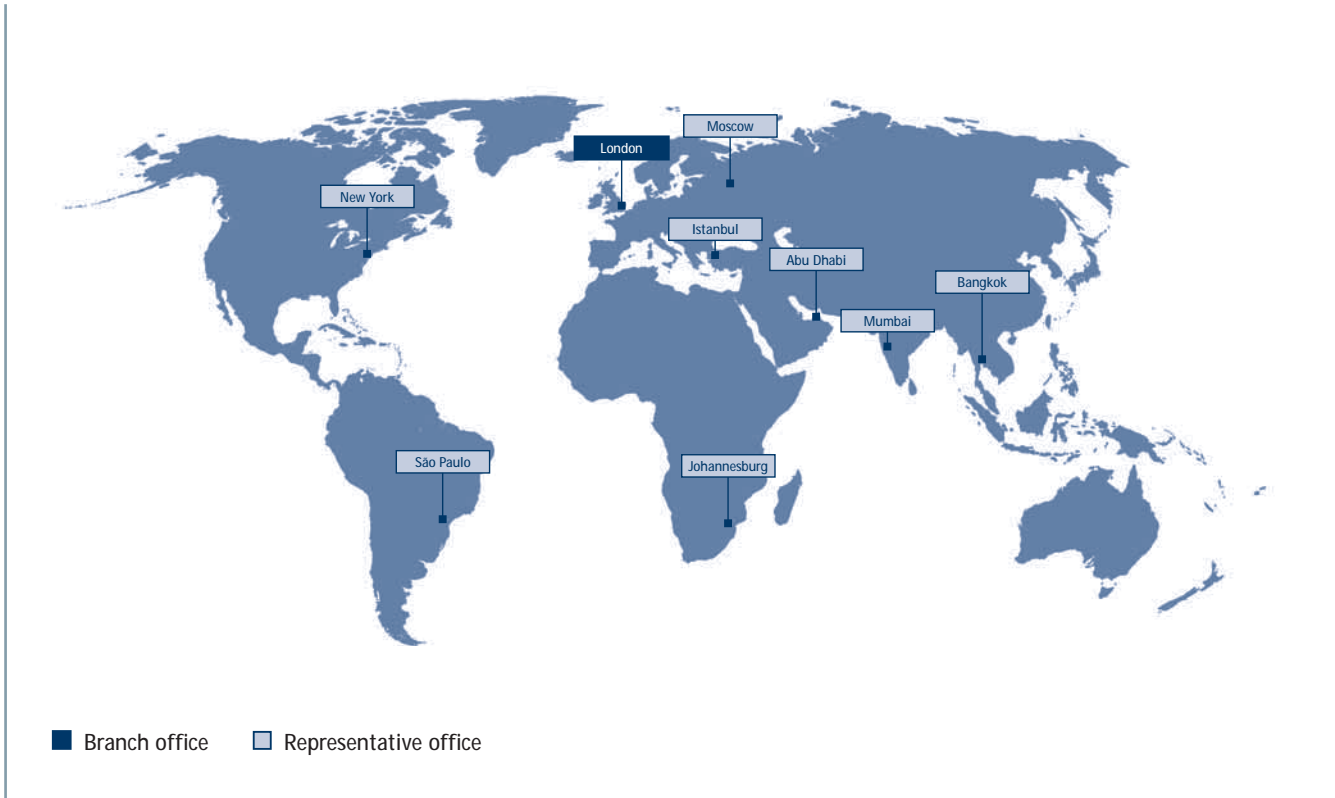
KfW IPEX-Bank's export and project financing is part of KfW's promotional mandate. It thus forms a core element of KfW Bankengruppe's international business. As a specialist financier, KfW IPEX-Bank supports its clients and their projects around the world, both in industrialised countries and emerging markets. In recent years it has established a network of in-country offices in all important growth markets for the German and European economies.

KfW IPEX-Bank currently has representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York and São Paulo, and a branch office in London. The bank can also draw on the expertise of around 60 KfW Entwicklungsbank and DEG offices in developing and transition countries. Due to its extensive knowledge of regional markets and its expertise

in structuring complex export and investment plans, the bank makes a point of operating in markets where access to finance is often difficult.

▀ In 2010, 31% (EUR 2.6 billion) of new business was in Germany, 37% (EUR 3.0 billion) in the rest of Europe and 33% (EUR 2.7 billion) outside Europe. Around 24% of new business volume was in emerging markets, which are becoming increasingly important for the German and European export economies, confirming the view that these markets are crisis-proof drivers of real economic growth. The proportion of new business outside Europe will grow further as the bank supports clients in emerging economies.

KfW IPEX-Bank abroad



Environmental and social responsibility

In accordance with KfW's strategic sustainability targets, KfW IPEX-Bank is also responsible for providing finance for environmentally and socially sound projects. It has maintained its own sustainability guideline for international business for the last ten years, which it has adapted on several occasions to reflect developments in corporate social responsibility. Because of its global orientation and the international ecological, social and economic responsibility this entails, the bank joined the Equator Principles Financial Institutions (EPFI) in 2008. The so-called Equator banks, of which there are around 70, maintain a continuous dialogue in order to further enhance their high standards. KfW IPEX-Bank is an active participant in this process.

KfW Bankengruppe – represented by DEG – has also been a supporting member of the Extractive Industries Transparency Initiative (EITI) since 2010. This voluntary association of governments, companies and civil society groups aims to ensure that revenues from the extraction of natural resources in resource-rich developing countries are reported transparently in government budgets and used to support sustainable development.

KfW IPEX-Bank has maintained its own sustainability guideline for international business for over ten years.

Environmental and social impact assessment for export and project finance

Parts of KfW IPEX-Bank's environmental and social guidelines go beyond the standards required by the Equator banks. All loan applications – not only project financing – are assigned to one of three environmental and social categories. Categories A and B involve projects that are likely to have considerable environmental and social impacts. These include raw materials projects or power stations, for instance. However, as the technical means are often available for bringing these environmental impacts under control, they are assessed more closely by KfW experts. For projects to be implemented in an EU country or another OECD country with established environmental protection practices and a stable social structure, this rule is waived. KfW IPEX-Bank only grants financing for a project that it has assessed if the project is deemed to comply with the IFC's internationally accepted environmental and social standards. If necessary, additional requirements are negotiated with the project executing agency.

Category C contains all projects which meet the German or European Union standards and therefore do not require special assessment. These are usually projects involving aircraft, rail vehicles, ships, telecommunications systems and capital goods.

■ In 2010, 7 projects were allocated to category A, 10 to category B and 49 to category C.

Loans totalling EUR 1.2 billion were granted in 2010 for investments in environmental and climate protection. These financings focussed on investments in power generation from renewable energy sources and thermal power plants that serve to improve energy efficiency. The bank also financed environmentally-friendly transport such as rail vehicles. This is a significant increase on the previous year of a good 12%, and underlines the bank's sense of responsibility and commitment to improving people's lives from an ecological perspective.

The projects financed by KfW IPEX-Bank meet the highest environmental and social standards.



The West Arcade building – in-house environmental protection that is ahead of its time

KfW IPEX-Bank sets exacting environmental standards – and not only when providing financing. It also sets a good example with its own environmental and climate protection. When it moved into the newly completed West Arcade building at KfW Bankengruppe's headquarters in Frankfurt in May 2010, the bank set new standards in many respects.

The West Arcade is one of the world's most efficient office buildings. With its annual primary energy consumption of 98 kWh/m² it has redefined the benchmarks. The use of innovative building technology and renewable electricity sources will reduce to a bare minimum the CO₂ emissions of the 14-storey office tower, which includes a conference centre and workstations for up to 700 staff. The building's double façade uses the wind to create a pressure gradient, thus providing natural ventilation whatever the weather. This design also allows for a high level of insulation and effective sun protection, while also ensuring sufficient natural light.

Ground heat exchangers and the use of waste heat from the computer centre are further examples of the numerous measures and strategies that combine to achieve the extraordinarily low energy consumption of the West Arcade building. Since 2006, KfW IPEX-Bank has offset the remaining emissions from its offices, together with the emissions calculated from business travel and other activities, using emissions certificates, resulting in a carbon footprint of zero.

Innovative technology: The 14-storey office tower has reduced CO₂ emissions to the bare minimum.



Export and project finance business area confirms its role as a major source of income for KfW Bankengruppe.

Economic and financial results for 2010

In comparison to previous years, the Export and project finance business area made an outstanding contribution of EUR 889 million to KfW's consolidated profit, a figure that was well above average.

This very encouraging result was primarily determined by two factors in addition to the positive operating result. First of all, expense for risk provisions was considerably reduced due to the stable risk structure in the loan portfolio. Secondly, at Group level KfW's attractive refinancing rate also had a positive impact on the year's result for the business area.

■ The volume of lending for the Export and project finance business area amounted to EUR 59.8 billion as at 31 December 2010 (as compared with EUR 63.6 billion in 2009). Net interest income and net commission income amounted to EUR 808 million, and the operating result before valuation was EUR 673 million. Thanks not least to the favourable risk situation, income from ordinary activities from the business area before income tax amounted to EUR 923 million.

This result confirms the role of the Export and project finance business area as a major source of income for KfW Bankengruppe. This business area thus makes an active contribution toward the sustainability of the bank's promotional capacities. A very positive result can also be reported for the legally independent KfW IPEX-Bank GmbH, whose accounts are balanced separately. KfW IPEX-Bank GmbH conducts the market transactions in the area of Export and project finance, and refinances itself through KfW at the going market rate on the basis of its own rating.

Outlook 2011: Reliable partner for the export economy and for investment in infrastructure and environment

The global economic recovery that began in 2010 is set to continue. As investment propensity and export demand increase, KfW IPEX-Bank anticipates a slightly higher demand for financing in 2011, particularly for medium to long-term financing. A late consequence of the financial crisis and the higher capital requirements expected under Basel III will mean strong competition remains between banks for low-risk and well-collateralised financing structures, although credit availability will be low overall.

KfW IPEX-Bank will continue to focus on supporting the German and European economies by providing finance for export and infrastructure projects, for environmental and climate protection projects and for securing Germany's supply of raw materials.

Financing solutions for export-orientated SMEs will also be further extended. The bank's regional focus will remain on the markets key to the German-European export industry. These include the emerging markets that are currently displaying dynamic growth.

Given these market conditions, KfW IPEX-Bank anticipates a slight increase in the volume of new business and healthy earnings for the Export and project finance business area in 2011.

WE PROMOTE DEVELOPMENT

*We finance economic and social progress
in developing and transition countries to improve
people's lives.*

WE PROMOTE GERMANY

WE SUPPORT INTERNATIONALISATION

WE PROMOTE DEVELOPMENT





AMAZON FUND – STRONG ROOTS FOR FOREST AND CLIMATE PROTECTION

In the past, an area of Brazilian forest the size of the German state of Hesse fell victim to the chain saw or slash and burn practices every year. Now, however, Brazil is working resolutely to maintain the tropical rainforest. The forest is one of the planet's largest carbon sinks and is thus very important in the fight against global warming. KfW Entwicklungsbank supports these efforts and committed EUR 21 million to the Amazon Fund in 2010 on behalf of the Federal Government. It is the world's first financing instrument to link forest and climate protection. Donors only pay in to the fund if Brazil shows progress in protecting the forests. In the past five years, the country has eliminated an average of 300 million tonnes of carbon emissions per year, and by 2020 it plans to reduce the rate of deforestation by 80 %.



KfW is committed to economic as well as environmental growth.

WE PROMOTE GERMANY

WE SUPPORT INTERNATIONALISATION

WE PROMOTE DEVELOPMENT





High quality generics for Central Africa

CAMEROON-BASED COMPANY PRODUCING LIFE-SAVING, LOW-COST MEDICINES

Improving levels of medical care for the population is a major challenge for many developing countries. This is primarily a problem to be solved by governments; however, private enterprises may also have important contributions to make. The first pharmaceutical production facility in Central Africa is one such example. The local company Cinpharm S.A. is manufacturing generic drugs in accordance with WHO standards at a state-of-the-art facility in Cameroon. This includes medicines to tackle malaria and gastrointestinal diseases, as well as antibiotics. By providing a guarantee, DEG enabled local banks to finance the investment with long-term loans in the local currency. It also made a pharmaceuticals expert available who assisted with plans for the plant and advised Cinpharm on the organisational structure.



Building a healthy economy: Local company Cinpharm S.A. manufacturing generics in Cameroon.

AT A GLANCE: PROMOTION OF DEVELOPING AND TRANSITION COUNTRIES IN 2010

KfW Entwicklungsbank and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH – are helping improve people's lives in developing and transition countries. Their goal is to help reduce poverty sustainably and protect the climate and environment. For example, KfW promotes the construction of irrigation systems, healthcare reform, school projects and the construction of wind farms. DEG supports the expansion of private-sector structures to facilitate growth and stimulate sustainable development. KfW supplements funds from the Federal Government with its own capital and helps implement the government's development-policy targets.

G20 award for fund: Local currency loans for SMEs

The European Fund of Southeast Europe (EFSE) launched by KfW Entwicklungsbank received an outstanding award in 2010 – the G-20 states recognised it as one of the 14 most innovative models for mobilising private financing in local currencies for SMEs in developing and emerging countries. The EFSE was competing with 345 entrants from more than 75 countries, and was chosen by voters worldwide as the best fund in the "People's Choice" award. US President Barack Obama, South Korean President Lee Myung-bak and Canadian Prime Minister Stephen Harper presented the award in November 2010 at the G-20 summit in Seoul.

The fund has granted more than 250,000 loans since 2005, totalling EUR 1.3 billion. This created around 215,000 jobs. The fund uses a public-private partnership model. The capital stock is provided by public donors and international financial institutions, as well as by private institutional investors. The fund's key investors are KfW Entwicklungsbank, the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Commission.

How football is supporting sustainable urban development

All eyes were on Africa in 2010 as the football World Cup was staged on Europe's neighbouring continent for the first time. Football's ability to bring people together was not only evident at the championship itself. It was also demonstrated

beyond that by an urban development programme supported by KfW Entwicklungsbank, which is helping promote peaceful coexistence in the townships of South Africa. The programme plans to build more than 100 football pitches across the whole of South Africa. Seven have already been completed. These will help young people learn the values of fair play, respect and tolerance through sport. In Khayelitsha near Cape Town, this was part of a comprehensive programme that achieved a demonstrable reduction in high rates of violence and crime.

The project supports residents, local organisations and municipal authorities in making streets and open spaces safer and more attractive for the general public. Buildings are being renovated, street lighting installed and new paths and roads created. Local people are learning how to articulate their concerns and reconcile divergent interests without resorting to violence. This has steadily improved safety in the district. Since 2004, KfW Entwicklungsbank has provided around EUR 15.5 million for the project on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ).

KfW Carbon Fund continues its successful work: Nine million emission credits acquired

KfW successfully continued its purchases of emission credits from climate protection projects in 2010, acquiring a total of approximately 9 million certificates from 14 projects in 6 countries. The new "EIB-KfW CO₂ Programme II" developed in partnership with the European Investment Bank

(EIB) focuses on innovative programme approaches and the acquisition of credits from the poorest developing countries.

Around 40% of the programme has already been utilised for projects. Several European companies have been found as purchasers, who use the certificates to fulfil their obligations in European emissions trading.

Emission credits were also successfully placed on the market outside the purchase programme. This is increasingly establishing the KfW Carbon Fund as a procurement platform for emissions certificates.

Since it was set up in 2009, the Carbon Fund has handled a total of around 37 million carbon credits, mobilising approximately EUR 380 million for climate protection projects.

The Carbon Fund also successfully implemented three Federal Government mandates: the auction of 41 million EU Allowances at the Energy Exchange in Leipzig, the implementation of the "Programme of Activities Support Centres Germany" to promote innovative activities under the "Clean Development Mechanism" (CDM), and carbon offsetting for business travel on behalf of the Federal Government and Bundestag.

Supporting German companies in developing countries

DEG has been advising and financing German companies investing in developing countries ever since it was founded almost 50 years ago. In the past two years alone it provided around EUR 300 million in long-term financing. For example RKW SE, a manufacturer of polyethylene and polypropylene films, received a loan in 2010 for a production facility in Egypt. The family-owned business aims to tap new markets in the country, while also securing jobs in Germany. The new facility will directly create around 100 new jobs in Egypt. Local staff will undergo an intensive training

programme, some of which will take place at RKW in Germany. This promotes the transfer of technology and expertise.

Making modern telecommunications accessible

DEG has been financing corporate investment in modern communications infrastructure in developing countries for many years in order to create access to information and communication for as many people as possible. For example, DEG committed long-term funding for O3b Networks in 2010 in cooperation with other international finance providers. These funds will be used to establish a satellite system for high-speed broadband Internet connections in developing countries.

The tranche committed is worth a total of around USD 260 million, of which DEG contributed around USD 28 million. The O3b satellites link developing countries to the global network and supply mainly remote regions with affordable communications services. Private households and companies in over 150 countries will benefit.

Promoting investment in climate protection

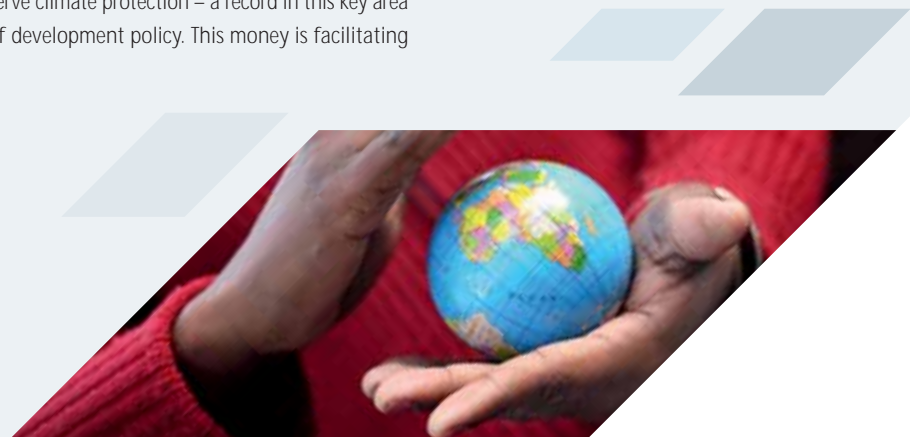
Climate protection is one of DEG's declared objectives. In 2010 it committed almost EUR 230 million for 26 projects by private companies that serve climate protection – a record in this key area of development policy. This money is facilitating

investment in a geothermal power plant in Nicaragua, for example, and the building of wind farms in countries such as India and Mexico. DEG also provided around EUR 7 million in 2010 for a total of 43 climate measures as part of the "develoPPP" programme and other related measures. This included free energy efficiency checks for manufacturers. Companies are shown how they can cut their energy bills, raise productivity and increase their competitiveness.

Investing in health

In 2010 DEG financed investment by private companies in the health sector to improve medical provision in developing countries. This made it possible, for example, for a Latin American drug manufacturer to expand production, improving public access to inexpensive medicines.

A hospital in Brazil received a long-term loan of USD 25 million, which enabled it to replace existing equipment and double the number of beds. Cameroon saw the launch of the first pharmaceutical production activity in Central Africa, which is manufacturing generic drugs for the treatment of malaria and gastrointestinal diseases, as well as antibiotics.



KFW ENTWICKLUNGSBANK – DEVELOPMENT BEYOND BORDERS

On behalf of the Federal Government, KfW Entwicklungsbank aims to help reduce poverty, build peace, make globalisation fair, and protect the climate, environment and nature. Drawing on its years of experience, and deploying its innovative strategies and promotional instruments, KfW Entwicklungsbank supports and advises its partners in developing and emerging countries on the planning, implementation and management of sustainable programmes for the environment and climate.

The Federal Government provides strategic guidelines for KfW Entwicklungsbank's activities. Despite the current need for consolidation, Germany has reaffirmed its international commitments concerning development cooperation and global climate protection. As the Federal Government's international promotional bank for development, environment and climate, KfW will continue to concentrate its efforts on mobilising additional funds of its own for commitments in partner countries. These will be invested more heavily in advanced developing countries and emerging markets. This will allow scarce budget funds to continue to be used on a significant scale to reduce poverty in the countries most in need.

In Germany's partner countries in Africa, Asia, Latin America and Europe, responsibility for realising and implementing the programmes is usually borne by a partner organisation. These are normally ministries, government authorities or other state bodies. However, KfW Entwicklungsbank also works with non-governmental organisations and private companies, which play an important role in the German Government's development policy. KfW Entwicklungsbank is responsible for implementing the Financial Cooperation arm of German development cooperation. In this context it works together with the "Deutsche Gesellschaft für internationale Zusammenarbeit" (GIZ), which is responsible for technical cooperation.

KfW Entwicklungsbank operates in developing and emerging countries on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), as well as other German ministries such as the Federal Foreign Office and the Federal Ministry for the Environment (BMU). These

activities include Federal Foreign Office programmes for peace-building, crisis prevention and conflict transformation, and climate protection programmes commissioned by the Federal Ministry for the Environment (BMU). KfW's expertise, acquired from its years of experience in development cooperation in the countries and industries concerned, is always in demand. At international level, KfW cooperates with other banks, donor institutions and multilateral institutions to sustainably improve people's livelihoods in developing countries.

KfW also plays an active role in advising the Federal Government at European level. In order to effectively advance the European environmental and climate policy agenda in the international domain, it is becoming increasingly important for European players to cooperate closely and pool their resources. KfW is therefore working at EU level to promote innovative methods of financing development in particular. This includes setting up and developing common European financing platforms.

Partnerships

KfW's relationships with its partners follow two fundamental principles. Firstly, the programmes promoted must be proposed by the partner and aligned with the partner's own development strategy. Secondly, the planning, implementation and management of the programmes must be partner-driven and partner-owned.

KfW Entwicklungsbank evaluates projects on behalf of the Federal Government to determine

KfW Entwicklungsbank develops solutions tailored to the requirements of each country, in line with the policy guidelines of the Federal Government.

whether they are appropriate from a development-policy perspective and are eligible for support. At the same time, KfW Entwicklungsbank's experts provide support at all stages of the project and are on hand to offer advice to the partners throughout the whole process. Solutions to problems are developed in dialogue together, ensuring the transfer of knowledge and supporting the development of partner capacities. When a project is completed, that is not yet the end of the story. The project is not considered a success until an independent evaluation shows that it has improved people's lives or helped protect the climate.

Microfinancing: A KfW success story thanks to high standards

Microfinancing has become a particular focus of attention within the development community in recent years. Problems in individual microcredit markets have been wrongly interpreted as proof that the whole idea of microfinance has failed. This was particularly so following the tragic events in the Indian state of Andhra Pradesh, which were triggered by overindebtedness. The counter-argument, however, is that over 2.5 billion people still lack access to basic financial services such as savings, loans, money transfers and micro-insurance. There is a global consensus that the world's poor urgently need these services in order to raise their living standards. This has been powerfully demonstrated by numerous success stories.

In this context, the events in India give further impetus to KfW's efforts to prevent similar problems in other countries. KfW is therefore closely monitoring the microfinance markets, even if – as in Andhra Pradesh – it does not finance microfinance institutions (MFI) directly.

Micro loans are the appropriate response to exploitation by unscrupulous money lenders, who continue to ply their dubious trade in many areas. Very many microfinance institutions operate

successfully, also in India. Millions of people benefit from financial services every day. KfW's focus on promoting such institutions is based on sustainability and reaching large numbers of beneficiaries. This requires the professionalisation of microfinance institutions that operate on the basis of clear principles such as fairness and transparency. There are many good examples of this.

KfW takes the risk of overindebtedness very seriously. It therefore insists on a rigorous selection procedure for clients and does not finance companies that provide exclusively consumer loans. In dialogue with partner governments KfW calls for "healthy" regulation and a workable system of supervision for banks and microfinance institutions.

The overwhelming majority of microcredit clients around the world have no difficulties in paying back their loans. KfW's local partner institutions set an example in their careful selection of borrowers and their fair and transparent relationships with their clients. They set high standards in their own countries and make an important contribution to providing sustainable access to financial services for poor sections of the population.

KfW Entwicklungsbank – the services it provides

KfW Entwicklungsbank operates worldwide. It now has a network of 63 offices around the world in addition to its locations in Frankfurt and Berlin. This enables it to liaise closely with partners and donor institutions, and to support and evaluate the progress made by the programmes promoted. KfW has offices in Addis Ababa in Ethiopia, Kigali in Rwanda, Pretoria in South Africa, Brasilia in Brazil, Tbilisi in Georgia, New Delhi in India and Phnom Penh in Cambodia, among other locations.

The world's poor need access to financial services in order to raise their living standards sustainably.

KfW Entwicklungsbank uses promotional instruments that are tailored to the needs and capacities of its partners.



More than one out of every two euros that KfW now uses in development projects in partner countries comes from KfW's own funds.

KfW employs German government budget funds for the programmes it promotes on behalf of the Federal Government. It also raises funds itself on the capital market, which it uses to supplement the funding of cooperation with developing and emerging countries. More than one out of every two euros that KfW now uses in development projects in partner countries comes from KfW's own funds. This significantly increases funding volume and the effectiveness of German development cooperation.

Thanks to its longstanding experience in key areas of development cooperation, KfW Entwicklungsbank possesses internationally recognised core competencies. These include environmental and climate protection, financial sector promotion and water management. In particular, the promotion of renewable energies and energy efficiency also constitutes a key area of development cooperation activity. Other key areas include municipal development and environmentally friendly transport systems.

The financing instruments used by KfW Entwicklungsbank are geared to the economic conditions that prevail in the countries concerned. Programmes are supported as needed through a combination of grants, low interest loans with long repayment terms, loans on terms close to the going market rate, and equity investments. KfW

bases its lending terms on various criteria: the economic performance of the partner country, its development status, the strength of its export economy, the amount of debt and type of project. This enables financings to be tailored to the specific situation.

Programmes and projects in the least developed countries (LDC) are financed through non-repayable grants. More economically able countries usually receive loans – especially development and promotional loans – on terms that are close to the going market rate. This is designed to encourage advanced countries to assume stronger ownership of the projects and programmes receiving funding.

The Federal Government also provides grants to such countries for specific projects it considers particularly important. These are largely given to projects that contribute directly to reducing poverty or protecting the climate, nature and the environment.

Commitments of KfW Entwicklungsbank in 2006–2010

	2010	2009	2008	2007	2006
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
KfW Entwicklungsbank					
FC grants ¹⁾	1,036 ³⁾	1,112	882	803	864
FC standard loans	179	230	351	277	280
FC development loans	2,142	878	1,033	579	704
<i>budget funds</i>	215	106	213	130	198
<i>KfW funds</i>	1,927 ⁴⁾	772	821	448	507
FC promotional loans	913	1,151	1,314	1,263	512
Delegated funds ²⁾	183 ⁵⁾	111	68	80	85
Total FC	4,452	3,482	3,648	3,002	2,445
Memo item: Interest grants	209	100	90	37	38

Differences in the totals are due to rounding

¹⁾ Differences compared with previous years due to adjustments in accounting for interest grants

²⁾ Excluding intermediary funds in 2010 (EUR 10 million), 2009 (EUR 233 million) and 2008 (EUR 33 million)

³⁾ This figure includes EUR 14 million in grants from the budget of the Federal Ministry for the Environment (BMU)

⁴⁾ Of which EUR 55 million interest rate reductions funded by the Federal Ministry for the Environment (BMU)

⁵⁾ This figure includes EUR 92.2 million in grants from the budget of the Federal Foreign Office



New commitment record

KfW Entwicklungsbank increased its financial support to a new record level in 2010. By taking counter-cyclical action, it helped mitigate the effects of the financial crisis on developing and emerging countries. A large increase was seen in development loans. This reflected the high investment need, especially among the more advanced partner countries.

Around 64% of the 2010 funding commitment was attributable to the market funds additionally mobilised by KfW. With these, KfW Entwicklungsbank supported the Federal Government's target of increasing the German contribution to financing development cooperation to 0.7% of GNI by 2015. Of the commitments made in 2010, 75% qualify as Official Development Assistance (ODA).

They included an extraordinary effect – a low-interest loan of EUR 500 million, which was Germany's contribution to the World Bank's "Clean Technology Fund".

In 2010 the Federal Government provided around EUR 1.4 billion of budget funds for international development financing. KfW contributed an additional EUR 2.8 billion of its own funds.

A breakdown of figures

In the year under review, KfW Entwicklungsbank commitments totalled EUR 4.5 billion, an increase of around EUR 1 billion on the previous year's figure of EUR 3.5 billion. Development loans rose to a total of EUR 2.1 billion.

Commitments by region

KfW Entwicklungsbank made particularly extensive use of its own funds in 2010. This relieved pressure on the Federal Government's tight budget resources, which could then be channelled into programmes and projects in particularly poor regions and countries.

KfW Entwicklungsbank commitments by region in 2010

	Federal budget funds		Total commitments	
	EUR in millions	%	EUR in millions	%
Sub-Saharan Africa	643	45	803	18
Asia and Oceania	417	29	1,114	25
Europe and Caucasus	153	11	967	22
Latin America	112	8	422	9
North Africa and the Middle East	95	7	399	9
Supraregional	10	1	747	17
Total	1,430	100	4,452	100

Differences in the totals are due to rounding

More efficient and climate-friendly energy use is one of KfW Entwicklungsbank's climate and environmental protection targets.

The lion's share of Federal Government budget funds once again went to Sub-Saharan Africa (EUR 643 million), with total commitments amounting to EUR 803 million.

Asia and Oceania received the second largest share of federal budget funds (EUR 417 million), and the largest share of total commitments (EUR 1.1 billion). Commitments for Asia were allocated mainly for climate and environmental programmes. Moreover, KfW Entwicklungsbank provided around EUR 247 million on behalf of the Federal Government to Afghanistan alone.

In terms of total commitments, Europe and the Caucasus ranked second. However, this region received only a small portion of Federal Government funds. The situation was similar for Latin America, which received EUR 422 million in total commitments. EUR 112 million of this amount comprised federal budget funds. A total of EUR 399 million was granted for North Africa and the Middle East.

efficient and thus climate-friendly use of energy. This amount also included a low-interest loan worth EUR 500 million – KfW's contribution on behalf of the Federal Government to the World Bank's "Clean Technology Fund". This fund promotes the use of clean and renewable energies in order to reduce greenhouse gas emissions.

With commitments of EUR 940 million, "social infrastructure" was the second largest promotional area in 2010. Most funding in this area was granted for improving water supply and sanitation. Support was also provided for the construction of schools and further training for teachers, as well as for health programmes in areas such as family planning and HIV/AIDS prevention.

The financial sector remained very important, given its major role in sustainable development in KfW partner countries. This sector includes a large number of programmes for industrial environmental protection. It received commitments totalling around EUR 780 million.

KfW Entwicklungsbank's priority sectors

In 2010 KfW Entwicklungsbank continued to attach very high priority to promoting sustainability, and climate and environmental protection. The majority of commitments in 2010 were provided for economic infrastructure (47%). Most of the programmes in this area supported more

Disbursements

KfW Entwicklungsbank disbursed EUR 3.5 billion for projects and programmes in developing and emerging countries in 2010. Of this sum, around EUR 1.7 billion came from federal budget funds. Disbursements were thus EUR 800 million higher than in the previous year.

Commitments by priority sector in 2009/2010

	2010		2009	
	EUR in millions	%	EUR in millions	%
Financial sector	784	18	1,089	31
Social infrastructure	939	21	1,003	29
Economic infrastructure	2,105	47	889	26
Production sector	185	4	148	4
Other	440	10	352	10
Total	4,452	100	3,482	100

Differences in the totals are due to rounding

Debt restructuring, cancellation and conversion

When partner countries are highly indebted, the Federal Government may ease or cancel their loan repayments under certain conditions. This is based on arrangements made with the international donor community through the Paris Club. In debt conversion, a partner country's debt repayments are cancelled provided that it uses these funds to reduce poverty, support environmental protection, promote education or combat HIV/AIDS. The International Monetary Fund (IMF) supports this process by having KfW participate on the German side in negotiations.

In 2010, under the "Heavily Indebted Poor Countries Initiative" (HIPC) KfW concluded a debt restructuring arrangement worth EUR 108 million with Côte d'Ivoire. This is easing the country's debt service burden.

In the same year KfW Entwicklungsbank also concluded new agreements on debt conversions worth EUR 105 million with Egypt, Côte d'Ivoire, Pakistan and Peru. Germany was able, also on the basis of various agreements from previous years, to cancel debt of around EUR 101 million after these countries had implemented the required projects.

Achieving more in climate protection

Following difficult negotiations, the global community nevertheless achieved a new result at the Climate Change Conference in Cancún, Mexico, in December 2010. Delegates from more than 190 countries agreed on two final documents – one on collaborating with developing countries and a second one on potentially extending the Kyoto Protocol. A group of experts from KfW Entwicklungsbank accompanied the German government representatives to the conference in order to make their expertise available and advise the German delegation on issues of international climate protection financing.

KfW's considers the UN climate change agenda to have reached a point at which there is now an imperative need for committed countries to implement ambitious initiatives for renewable

energies, energy efficiency, forest protection and adjustment to climate change. In the next few years KfW Entwicklungsbank will be redoubling its efforts to support climate protection measures in a large number of countries.

In 2010, KfW continued to shape the agenda for climate protection and adjustment to climate change on behalf of the Federal Government. The promotional bank is regarded as an international leader in the development of innovative promotional instruments in this area. Thus, KfW and Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) have developed a plan for a "German climate technology initiative" together with the Federal Government. This initiative is designed to promote the transfer of innovative and proven climate protection technologies to partner countries.

Further activities of KfW in this area include the use and continued development of modern financing instruments, such as credit lines and fund solutions for energy efficiency and renewable energies. KfW is also committed to the international advancement of forest protection as a basic element of climate protection. In the year under review the bank also continued promoting the "Initiative for Climate and Environmental Protection" on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), and the "International Climate Initiative" on behalf of the Federal Ministry for the Environment (BMU). KfW Entwicklungsbank introduced a group-wide climate impact assessment in 2010 in order to further optimise all projects in terms of their effects on the climate.

Overall, KfW Entwicklungsbank provided a total of around EUR 2.6 billion for the area of environment and climate in 2010. This was equivalent to approximately 58 % of its total promotional volume. This will lower CO₂ emissions in partner countries by an annual 10.3 million tonnes.

In debt conversion, partner countries are no longer required to repay their debts provided that they use these funds to fight poverty or protect the environment.

KfW Entwicklungsbank will continue to expand its commitment to climate protection in developing and emerging countries over the next few years.



Commitment volume by country in 2010

Ranked by BMZ budget funds

Rank	Country	BMZ budget funds	KfW funds	Other budget funds/funds of other donors	Total
		EUR in millions	EUR in millions	EUR in millions	EUR in millions
1	Afghanistan	155.00	0.00	92.00 ²⁾	247.00
2	Tanzania	105.30	0.00	0.00	105.30
3	Mozambique	73.50	0.00	0.00	73.50
4	Ghana	70.00	0.00	0.18 ²⁾	70.18
5	Egypt	66.35	221.82	0.00	288.17
6	Ethiopia	58.28	0.00	0.00	58.28
7	PR of China	56.70	365.72	0.00	422.42
8	Pakistan	56.56	0.00	3.12 ²⁾	59.68
9	Uganda	47.12	0.00	0.00	47.12
10	Mali	31.70	0.00	11.15 ²⁾	42.85
11	Brazil	31.50	51.62	0.20 ¹⁾	83.32
12	India	30.09	71.41	0.00	101.50
13	Malawi	29.50	0.00	0.00	29.50
14	Turkey	27.20	115.05	13.75 ^{1), 2)}	156.00
15	Uzbekistan	27.01	0.00	0.00	27.01
16	Georgia	25.19	75.00	0.00	100.19
17	Palestinian territories	24.00	0.00	13.49 ²⁾	37.49
18	Peru	23.54	70.06	0.50 ¹⁾	94.09
19	Indonesia	20.00	3.00	0.09 ²⁾	23.09
20	Namibia	19.00	35.00	0.45 ²⁾	54.45
21	Albania	18.02	121.75	8.82 ²⁾	148.59
22	Nepal	17.00	0.00	0.00	17.00
23	Armenia	16.00	104.50	0.00	120.50
24	Liberia	15.00	0.00	0.00	15.00
25	Nigeria	15.00	0.00	0.00	15.00
26	Burkina Faso	13.50	0.00	0.00	13.50
27	Senegal	13.40	0.00	0.00	13.40
28	South Africa	13.30	68.50	3.00 ¹⁾	84.80
29	Burundi	13.00	0.00	0.00	13.00
30	Togo	13.00	0.00	0.00	13.00
31	Tajikistan	10.60	0.00	0.00	10.60
32	Ecuador	10.00	0.00	0.00	10.00
33	Zambia	10.00	0.65	0.00	10.65
34	Guatemala	8.00	0.00	0.00	8.00
35	Kyrgyzstan	8.00	0.00	0.00	8.00

Continuation

Rank	Country	BMZ budget funds	KfW funds	Other budget funds/funds of other donors	Total
		EUR in millions	EUR in millions	EUR in millions	EUR in millions
36	Viet Nam	7.70	160.08	0.00	167.78
37	Mongolia	7.32	0.00	0.00	7.32
38	Philippines	7.00	0.00	0.00	7.00
39	Honduras	6.70	0.00	0.00	6.70
40	Côte d'Ivoire	6.51	0.00	0.00	6.51
41	Costa Rica	6.00	0.00	0.00	6.00
42	Republic of Kosovo	6.00	0.00	10.86 ²⁾	16.86
43	Serbia	5.84	100.00	0.00	105.84
44	Benin	5.50	0.00	0.00	5.50
45	Laos	5.50	0.00	0.00	5.50
46	Moldova	5.00	0.00	0.00	5.00
47	Mauritania	3.95	0.00	0.00	3.95
48	Yemen	2.80	0.00	0.00	2.80
49	Bolivia	2.00	0.00	0.00	2.00
50	Tunisia	1.45	47.00	0.00	48.45
51	Sri Lanka	1.26	0.00	0.00	1.26
52	Bosnia and Herzegovina	1.00	71.00	5.02 ²⁾	77.02
53	Croatia	1.00	0.00	0.00	1.00
54	Madagascar	0.34	0.14	0.00	0.48
55	DR Congo	0.30	0.00	0.00	0.30
56	Chile	0.00	105.69	0.00	105.69
57	Jordan	0.00	22.00	0.00	22.00
58	Kenya	0.00	39.10	0.00	39.10
59	Macedonia	0.00	34.10	0.00	34.10
60	Mexico	0.00	48.63	0.00	48.63
61	Rwanda	0.00	0.00	0.80 ²⁾	0.80
62	Ukraine	0.00	0.00	0.13 ¹⁾	0.13
63	Supra-national	145.47	783.77	32.08 ^{1), 2)}	961.32
64	Other	15.70	124.33	1.07 ²⁾	141.10
Total		1,415.71³⁾	2,839.92	196.69	4,452.32

Memo item: Interest grants of EUR 209 million (of which BMZ: EUR 204 million; BMU: EUR 5 million)

Differences in the totals are due to rounding

¹⁾ BMU funds

²⁾ Funds of other donors (including other budget funds)

³⁾ Deviation from total federal budget funds, as only BMZ funds

DEG – PROMOTING ENTREPRENEURIAL DEVELOPMENT

DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH) has been promoting private-sector development in developing and transition countries since 1962. DEG has been part of KfW Bankengruppe since 2001. It promotes private-sector development within the framework of German development policy. It grants private enterprises long-term finance from its own funds on market-oriented terms that would not be available from commercial providers.

DEG provides targeted support for investment by SMEs, as these companies do not have sufficient access to investment capital.

A key requirement is that the companies' co-financed projects not only make economic sense and are appropriate in terms of development policy, but are also environmentally and socially sound. DEG provides targeted support for investment by SMEs, as these companies do not have sufficient access to investment capital. And it is a specialist in risk capital financing in the form of equity interests and mezzanine financing. DEG also advises private companies in structuring their investment plans and supports them as a reliable partner, including in politically or economically difficult times.

By providing capital, closing financing gaps and assuming risks, DEG makes investments by the private sector in developing countries possible that would otherwise not be. Its financings offer considerable leverage as they mobilise additional capital. DEG thus contributes to sustainable growth and helps improve people's lives sustainably in the countries where the investments are made.

To date, DEG has provided almost EUR 12.5 billion and promoted around 1,660 enterprises investing in developing countries.

Business performance 2010

DEG made new financing commitments totalling EUR 1,226 million in 2010 – the highest new commitment volume in a single financial year. Disbursements amounted to around EUR 869 million. The new commitments mobilised total investments worth around EUR 7.8 billion.

The portfolio grew to around EUR 5.2 billion, which corresponds to a total investment volume of some EUR 32 billion, spread over 530 compa-

nies in 85 partner countries. This enabled DEG to further establish its position as one of Europe's largest development financiers for private-sector promotion.

The new commitments covered 94 projects in 32 countries. The least developed countries (LDC) in which DEG became involved for the first time in 2010 included Madagascar, Rwanda and Uganda. DEG financings for Latin America amounted to around EUR 360 million in 2010. Investments in Asia with commitments of around EUR 351 million followed closely behind. EUR 227 million was provided for projects in Africa and around EUR 258 million for Europe. Financing was provided for a supraregional project to the tune of EUR 30 million.

DEG committed EUR 404 million to the financial sector in 2010 (as compared with the previous year's figure of EUR 306 million). Priority was given to loans for banks and other financial institutions, in order to improve the financial services offered to companies in partner countries. DEG also sought to boost the institutional capacities of co-financed banks and private equity firms. It supported the establishment of international standards for corporate social responsibility and governance.

Financings for industrial sector companies amounted to EUR 398 million, or around 32% of new business. They thus constituted the largest share of direct investment financings. The industrial sector is largely responsible for the creation of skilled jobs and the transfer of expertise.

In this sector, DEG financed investments by private companies in the pharmaceutical, textile, construction materials and metal industries.

EUR 271 million or around 22% of new commitments were granted for infrastructure projects – a record in this key sector for development policy. These funds are being used to co-finance projects in the energy and water supply, health, telecommunications, transport and traffic sectors. Agriculture and the foodstuffs industry accounted for around 8% of promotional volume with EUR 98 million. EUR 55 million was granted for the service sector.

DEG also granted a new record high for climate protection financing – nearly EUR 230 million was provided to 26 projects in this sector. Power plants based on renewable energies and investments in increased energy efficiency were the main beneficiaries. DEG also provided almost EUR 7 million to finance 43 climate protection-related PPPs and accompanying measures.

Risk capital is one of the types of financing for which demand is strongest in partner countries. It is, however, almost impossible to obtain, which makes it particularly relevant for development policy. In 2010 DEG provided EUR 344 million in risk capital in the form of equity investments and mezzanine financing.

German companies that operate in developing countries, or plan to do so, constitute an important target group for DEG. More than EUR 135 million was granted for projects involving cooperation with German partners in 2010. This amount was mainly granted for investments by manufacturing industry. Investment locations included Egypt, China, Croatia and Russia.

Promotional programmes

DEG also works closely with German companies. It has operated "develoPPP.de" – a programme for public-private partnerships set up by the Federal Ministry for Economic Cooperation and Development (BMZ) – since 1999. Under this programme, German and other European companies can realise measures that are appropriate from a development-

policy perspective. BMZ funds of EUR 15.7 million were made available to DEG in 2010 for the "develoPPP.de programme". A total of EUR 47.8 million was provided for 76 new PPPs. These projects received EUR 20.4 million in DEG public funds and EUR 27.4 million from private companies. Nearly fifty percent of the projects involved the focal areas of resource conservation and climate protection, as well as the energy sector.

In 2010 the Federal Ministry for the Environment (BMU) and DEG concluded a cooperation agreement for the first time. The jointly developed "Climate Partnerships with the Private Sector programme" supports the promotion of climate-friendly technologies in developing countries by funding entrepreneurial activities in this important area. The BMU provided funds of EUR 2.0 million from the "International Climate Initiative" (ICI). DEG received 40 project proposals from companies in 2010. Seven of these measures have already been realised.

In order to scale up and enhance the structural development results of the projects it helped finance, DEG also executed accompanying measures in 2010. To this end, it employed EUR 1.3 million of its own funds. The BMZ contributed an additional EUR 1.95 million. As a result, 54 accompanying measures were financed which strengthen the economic, social and environmental sustainability of the financing projects. This included energy efficiency checks for enterprises in the manufacturing sector.

In 2010, new commitments mobilised total investments worth around EUR 7.8 billion.



DEG's commitment also had a strong impact in the year under review. Companies succeeded in securing or creating an estimated 115,000 jobs as a result of the investments co-financed in 2010, with an additional 220,000 generated indirectly.

Cooperating internationally – working together efficiently

DEG has been cooperating closely with its European partner institutions for a number of years. The "European Development Finance Institutions" (EDFI) is an association of 15 bilateral development finance institutions that promote the private sector. Twelve EDFI members including DEG are participating alongside the European Investment Bank (EIB) in the European Financing Partners (EFP) initiative. The initiative supports private investment in developing countries in the African, Caribbean and Pacific (ACP) Group of States. In 2010 the partners once again increased their funds by EUR 250 million. The European Investment Bank provided EUR 100 million from EU funds from the Cotonou Investment Facility. EUR 125 million came from the bilateral institutions.

This successful cooperation arrangement served as the model for the Interact Climate Change Facility (ICCF) in 2010. Twelve EDFI members, the European Investment Bank and Agence Française de Développement (AFD) became involved with the ICCF in order to promote private-sector climate change mitigation and adaptation projects in developing countries. The ICCF has funds of around EUR 250 million. DEG committed EUR 30 million of this.

Effective promotion for development

Since 2002, DEG has used an instrument developed in-house to monitor and manage the quality of its projects with respect to corporate and development-policy targets. Fifteen other development finance institutions now use this corporate-policy project rating tool – the so-called GPR. The quality of DEG new commitments as measured in relation to development-policy targets averaged 2.6 in 2010 – once again a good result. DEG's engagement also had a strong impact in the year under review. Companies succeeded in securing or creating an estimated 115,000 jobs as a result of the investments co-financed in 2010.

DEG further increased its equity in 2010, thus creating a solid foundation for bearing the risks of promotional business and for its own self-reliant growth.

This figure was augmented by more than 220,000 jobs with suppliers and end borrowers in financial sector projects, which also benefited from the investments. Moreover, companies in partner countries contribute EUR 490 million to annual public revenues, generating annual net foreign exchange revenues of around EUR 2.7 billion.

Foundation for sustainable growth

Generally speaking fiscal 2010 was a year of economic recovery, which had not been expected to follow so soon after the global economic and financial crisis. Developing and emerging countries, primarily in Asia and Latin America, played a major role in this upswing. For DEG, this meant (among other things) that proceeds from the sale of equity investments increased as the equity investment markets recovered. Moreover, the high risk provisioning requirement caused by the crisis was significantly reduced.

Profits from operating activities amounted to EUR 272 million in 2010 (as compared with the previous year's loss of EUR 48 million). The profit for the year, after tax, was EUR 268 million (compared with a net loss of EUR 51 million in 2009). Taking into account withdrawals from the special-purpose reserve earmarked for accompanying measures, this resulted in a balance sheet profit of around EUR 270 million (compared with the balance sheet loss of EUR 50 million in 2009).

DEG primarily follows a development mandate. Its economic target is to cover operating costs and risk provisions as well as to maintain sufficient reserves and generate value-preserving interest on capital employed. DEG further increased its equity in 2010 with the balance sheet profit it generated. This represents a solid foundation for bearing the natural risks of promotional business and for DEG's own self-reliant growth.

CAPITAL MARKETS

In a difficult market environment, KfW's bonds are seen as an even more secure investment than they would be under normal circumstances. This is thanks to KfW's status as a first-class issuer, which it owes to the explicit guarantee provided by the Federal Republic of Germany and its high standing on the international capital markets.

A CONSTANT IN VOLATILE MARKETS

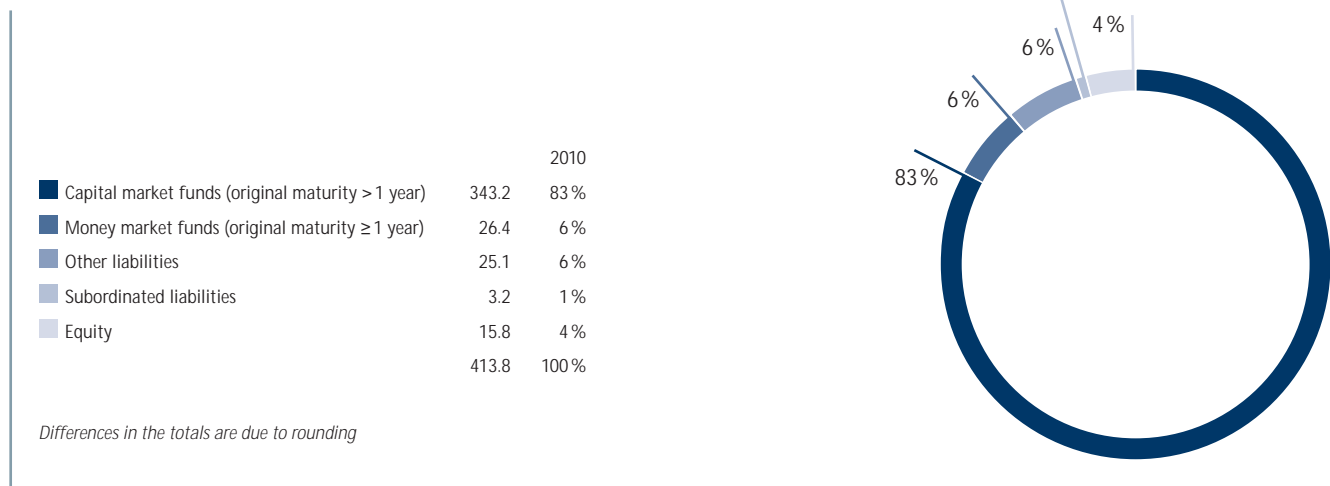
The Capital Markets business area focuses on ensuring KfW's appropriate funding and liquidity, as well as its currency and interest rate management. The bank also bundles its special capital market-related tasks commissioned by the Federal Government in this business area. These include executing the holding arrangements in the privatisation of Deutsche Telekom AG and Deutsche Post AG, as well as tasks relating to the implementation of EU-wide support measures for Greece.

Successful funding via the capital markets is essential to the discharge of our promotional mandate.

International financial markets continued to feel the impacts of the financial crisis in fiscal 2010. Added to this was the debt situation of some countries – particularly in the euro area, which increasingly came to be seen as critical. Against this backdrop, the general market environment was characterised by a high degree of nervousness and volatility. In this setting KfW's strengths – reliability, dependability and sustainable action – were highly valued on the international capital markets.

KfW funds its activities almost exclusively via international money and capital markets. As one of the world's most active bond issuers, KfW is a major player in these markets.

Capitalisation of KfW Bankengruppe (EUR in billions as at 31 December 2010)



LONG-TERM FUNDING – AN EXCELLENT STRATEGY WINS INVESTOR CONFIDENCE

KfW is an established bond issuer on the international capital markets. The explicit guarantee provided by the Federal Republic of Germany and KfW's clear shareholder structure offer investors the best security possible. This is why the demand for KfW bonds is particularly high during difficult market phases.

In the challenging environment of 2010, KfW performed extremely well as a bond issuer. It used a broad range of bond issues with a diversity of structures and currencies. This enabled it to meet a wide range of investor needs.

 KfW issued 371 bonds in a total of 17 different currencies in order to discharge its promotional mandate in 2010, thus raising long-term funds of EUR 76.4 billion.

KfW capital market services received several awards from the international financial media. The IFR finance journal rated the bank as the best issuer in 2010 in the "Supranational, Sovereign, Agency, Regional Issuer" category. Euroweek magazine recognised the KfW team responsible for the issue business as the "most impressive funding team" in its market segment. KfW was also recognised for its issuing strategy in currencies including the euro, US dollar, and yen.



"Even in a difficult market environment, KfW achieved its targeted funding volume, demonstrating a high level of flexibility and professionalism in executing transactions."
International Financing Review

Best possible financial rating

Since 1998, pursuant to section 1 a of the KfW Law the Federal Republic of Germany has been explicitly liable for the bonds issued by KfW. This is the basis for the best possible AAA/Aaa/AAA financial rating, which in 2010 was confirmed once again by the three rating agencies Fitch Ratings, Moody's Investor Service and Standard & Poor's – with a stable outlook.

We successfully extended our yield curve with the first-time issue of a seven-year KfW € benchmark bond.

Three established funding pillars: Focus on benchmark bonds

KfW has a three-pillar funding concept. The first pillar is also the most important. It consists of high-volume bonds denominated in euros and US dollars with particularly high liquidity and with maturities in 2010 of two, three, five, seven and ten years. KfW remained the only issuer in its market segment that could offer investors bonds in both currencies and with typical benchmark maturities. This also included ten-year maturities, which are considered particularly challenging for issuers. The right choice of a favourable issue slot combined with rapid execution was a major factor in the successful placement of benchmark bonds. The proportion of benchmark programmes in KfW's long-term funding portfolio increased by 11 percentage points year-on-year to 57% of the total funding volume.

Of considerable note in 2010 was the growing extent to which investors distinguished between euro zone issuers from core and peripheral countries. Aspects of the respective guarantee, the strength of the guarantor and the issuer's ownership structure also played an increasingly important role in investor decision-making. Investors exhibited a significantly higher preference for long-term liquid bonds from well known issuers. Against this backdrop, Asian central banks and institutional investors from Germany and Europe were the dominant investor groups for KfW benchmark bonds in euros. Having shown greater restraint in 2009, Asian investors – central banks in particular – emerged as the largest group for KfW benchmark bonds in US dollars.

The second pillar of KfW's funding strategy comprises the issuance of public bonds outside the benchmark programmes. These include bonds in the core currencies the euro and the US dollar, as well as in other major currencies such as the pound sterling, the Australian dollar, the Swedish krona, the Norwegian krone and the Japanese yen.

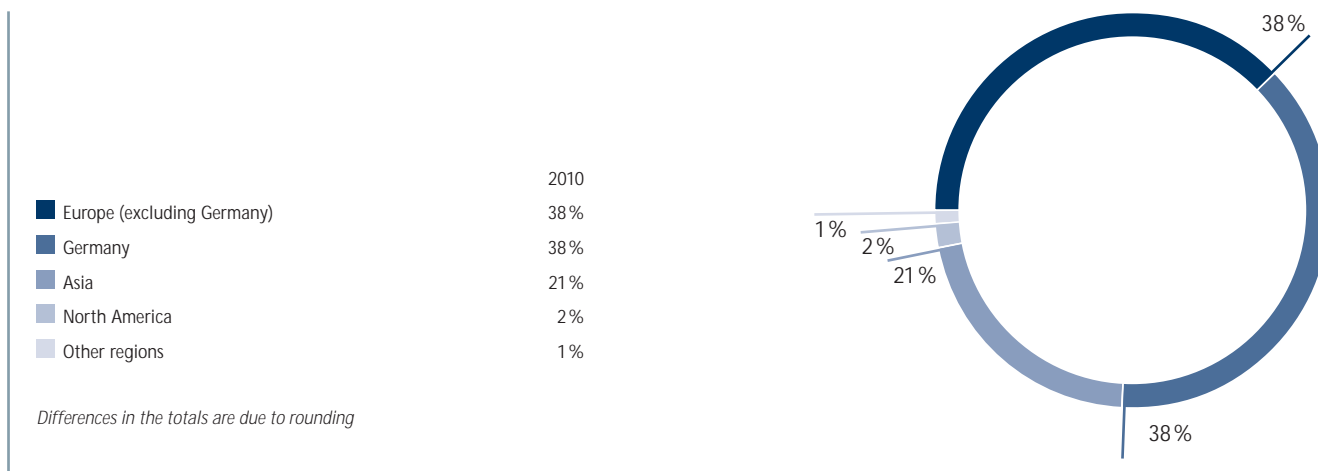
The third funding pillar involves KfW assuming loans and issuing privately placed bonds. These instruments are of a non-public nature as they are designed to meet the individual needs of institutional investors.

Funding in 2010/2009 by instrument

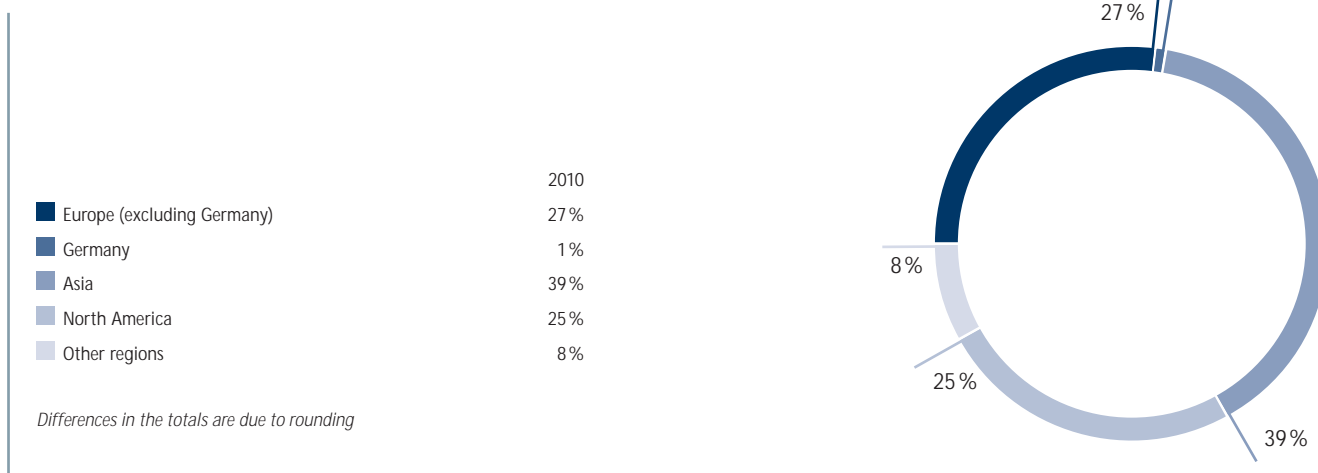
	2010		2009	
	EUR in billions	%	EUR in billions	%
Securities	75.2	98	73.0	98
<i>Benchmark bonds</i>	43.6	57	34.4	46
<i>Public bonds</i>	26.8	35	27.7	37
<i>Private placements</i>	4.8	6	11.0	15
Loans	1.2	2	1.7	2
<i>Credit-linked notes</i>	0	0	0.1	0
<i>Other</i>	1.2	2	1.5	2
Total	76.4	100	74.7	100

Differences in the totals are due to rounding

Placement of KfW Benchmark Bonds in euros



Placement of KfW Benchmark Bonds in US dollars



€ Benchmark Programme 2010

	EUR in billions	Term	2010 Interest rate in %
KfW € Benchmark I/2010	5.0	10 years	3.625
KfW € Benchmark II/2010	5.0	5 years	2.250
KfW € Benchmark III/2010	5.0	3 years	1.250
KfW € Benchmark IV/2010	5.0	7 years	2.250
KfW € Benchmark V/2010	3.0	5 years	1.875

US\$ Programme 2010

	USD in billions	Term	2010 Interest rate in %
KfW \$ Benchmark I/2010	4.0	3 years	1.875
KfW \$ Benchmark II/2010	4.0	10 years	4.000
KfW \$ Benchmark III/2010	3.0	5 years	2.625
KfW \$ Benchmark IV/2010	4.0	2 years	1.250
KfW \$ Benchmark V/2010	5.0	3 years	1.375
KfW \$ Benchmark VI/2010	4.0	10 years	2.750
KfW \$ Benchmark VII/2010	4.0	5 years	1.250

Variety of currencies: Adding strategic value for KfW

Currency diversification is very important for KfW. This enables the bank to flexibly adjust to changing demand and market conditions at any time. KfW avoids currency risks in this regard by executing hedging transactions at the same time as it issues foreign currency bonds.

We placed KfW bonds on international capital markets in a total of 17 currencies.

The euro and the US dollar are the core currencies of KfW funding. KfW took out 79% of its capital market funds in these two currencies in 2010. For the first time, the Australian dollar assumed third place amongst the most important currencies. Other major currencies included the pound sterling, Japanese yen, Swedish krona and Norwegian krone. As one of the most important issuers in emerging countries, KfW is a major contributor to the development of these countries' capital markets. Not only does KfW issue bonds in the local currency in these countries, it also customises them to meet investors' individual needs as necessary. KfW usually plays a major role in these markets. However, they are of minor importance for KfW's total funding.



In 2010 KfW celebrated 25 years of capital market presence in Japan. KfW has placed more than 2,000 issues on the Japanese capital market during this time. As 2010 drew to a close, a volume of more than EUR 22 billion remained outstanding.

Funding in 2010/2009 by currency

Currency	2010		2009	
	EUR in billions	%	EUR in billions	%
EUR	31.7	41	32.8	44
USD	28.6	37	25.7	34
AUD	5.4	7	3.0	4
GBP	3.4	4	5.6	7
JPY	1.7	2	2.8	4
Other currencies	5.7	7	4.8	6
<i>European currencies (e.g. CHF, NOK, SEK)</i>	3.9	5	2.9	4
<i>American currencies (BRL, CAD)</i>	1.1	1	0.5	<1
<i>Oceanic currencies (NZD)</i>	0.4	<1	0.5	<1
<i>Asian currencies (e.g. IDR, SGD)</i>	0.2	<1	0.8	<1
<i>African currencies (e.g. ZAR)</i>	<0.1	<1	0.2	<1
Total	76.4	100	74.7	100

Differences in the totals are due to rounding

Currency mix of KfW funding

EUR

The euro remained the most important funding currency. With a total volume of EUR 31.7 billion, 41 % of total funding volume was raised in this currency (as compared with the previous year's figure of 44 %). KfW issued five high-volume benchmark bonds worth a total of EUR 23 billion. KfW raised additional funds of EUR 8.7 billion via other EUR bonds and promissory note loans.

USD

The US dollar remained KfW's second most important funding currency. KfW raised funds worth an equivalent of EUR 28.6 billion in the year under review. This amounted to 37 % of the funding volume (as compared with the previous year's figure of 34 %). Long-term funds of USD 3.5 billion were raised under the US Medium Term Note Programme – more than ever before.

AUD

The Australian dollar advanced to become KfW's third most important funding currency (7 %), benefiting from the high demand among central banks and other banks. The total volume from 15 transactions amounted to the equivalent of EUR 5.4 billion, making KfW the largest issuer in its market segment in the so-called kangaroo market.

GBP

KfW has also been a very active issuer with a solid market position in pounds sterling for years now. In 2010 it raised funds worth an equivalent of EUR 3.4 billion. This represented 4 % of its funding volume (as compared with the previous year's figure of 7 %).

JPY

The Japanese capital market has traditionally been a key source of funding for KfW. Yen bonds worth EUR 1.7 billion were issued in 2010 (as compared with the previous year's figure of EUR 2.8 billion). This represented a good 2% of funding volume.

Other

Among the other funding currencies, funds raised in Swedish krona (worth an equivalent of EUR 1.8 billion) and Norwegian krone (worth an equivalent of EUR 1.4 billion) each amounted to 2 % of total KfW funding volume for the first time. Emerging market currencies accounted for just under 2 %, reaching an equivalent of EUR 1.4 billion.

The first-class credit quality of KfW bonds combined with the bank's diversified and reliable funding strategy will continue to guarantee successful access to the capital market at all times.



Well positioned for 2011

KfW anticipates stable funding requirements of around EUR 75 billion for fiscal 2011, similar to the previous years. In order to refinance its funding requirements, the bank will rely on its tried-and-tested combination of high-volume benchmark bonds, other public bonds and private placements. For 2011, the tenth year since issuance of the first KfW bond in the € benchmark format, the bank expects to see a further increase in the importance of the benchmark programmes.

The capital market environment is expected to continue its return to normal in 2011, after having overcome the financial and economic crisis. Nevertheless, the debt situation of some countries may still mean distortions and market turbulence – at least of a temporary nature. A keener competitive environment must be expected due to the sustained high volatility on the international capital markets and an increased offering by supranational and non-state issuers.

First-class credit quality in conjunction with KfW's diversified and reliable refinancing strategy will thus remain the most important guarantees of the bank's access to international primary markets in the future. Offers throughout the maturity range and high flexibility in format and currency will remain the key factors for successful issuing activity.

SHORT-TERM FUNDING – STRONG DEMAND FOR COMMERCIAL PAPER

KfW commercial paper combines a top-notch credit rating, a high degree of flexibility and a stable market presence. This means that it meets the highest demands of investors with a short-term perspective across the globe.

Short-term commercial paper programmes offering short maturities are a key component of our approach to liquidity management.

In 2010 the international money markets were marked by tensions in the wake of the global financial and government debt crisis. The persistent subdued risk appetites of many investors kept the demand for safe short-term investments in KfW commercial paper relatively high. The bank uses its two commercial paper programmes to raise short-term funds for a term of up to twelve months. Both programmes are well established on the international money markets.

The KfW commercial paper is an opportunity to acquire short-term securities, subject to a German government default risk, that are not denominated in euros. In the short-term market segment, KfW has been successfully defending its position among the world's largest commercial paper issuers with its two programmes for years now.

The multicurrency commercial paper programme is the most important short-term source of funding for KfW Bankengruppe. It offers issues in all major currencies. Issue volumes in the year under review were still considerably higher than before the financial crisis. This was partly attributable to the bank's constant high funding requirements and partly to KfW's preferred status among investors thanks to its excellent credit rating – particularly in times of crisis. This meant that KfW once again achieved very attractive refinancing conditions for funding via the money market.

The US commercial paper programme is specially designed for the US market. KfW maintained its issue volumes at a comparatively high level in 2010. The bank uses this programme to cover a large proportion of its need for short-term funds in US dollars. The refinancing conditions that it managed to secure were attractive across the board.

 The Multicurrency Commercial Paper Programme is worth EUR 35 billion. In the year under review the average outstanding volume was EUR 18.9 billion. The US Commercial Paper Programme is worth USD 10 billion, with an average outstanding volume of USD 7.4 billion in the year under review. Taking both commercial paper programmes together, KfW issued securities in 1,624 transactions (as compared with the previous year's figure of 2,253).

KFW'S SECURITIES TRANSACTIONS

At KfW, securities business involves first and foremost managing financial investments to control liquidity across the Group in the form of a liquidity portfolio. This is designed to ensure that KfW remains capable of taking action even if it has no access to the capital market.

We are a conservative investor and invest exclusively in high-quality fixed-income securities.

As a conservative investor, KfW invests exclusively in fixed-income securities with good (i.e. investment grade) credit ratings. It invests in the "bank bonds", "Pfandbriefe" (German covered bonds), "public sector" and "supranational institutions and agencies" asset classes. Furthermore, a large portion of the bonds must be eligible for the European Central Bank (ECB) collateral pool, giving KfW access to the equivalent volume of ECB primary liquidity. In addition to the liquidity portfolio, KfW has a separate portfolio for the market management of its own KfW bonds. KfW manages both portfolios in-house.

In addition to its securities business, KfW is also involved in lending business in the form of securities. These transactions are not assigned to the Capital Markets business area; they fall under promotional lending business. Furthermore, the bank holds securities in a phase-out portfolio that KfW classified as being of non-strategic significance during the financial crisis and now plans to phase out in the medium term.

As 2010 drew to a close, KfW's liquidity portfolio accounted for a volume of EUR 21.1 billion. All combined, the securities items on KfW's balance sheet totalled EUR 31.3 billion (as compared with EUR 33.7 billion in 2009). The difference is due largely to KfW's lending business in the form of securities.

SOCIAL RESPONSIBILITY ON CAPITAL MARKET HIGH ON AGENDA

Sustainable investments are becoming increasingly important for KfW. The bank has played a pioneering role in this field and has also incorporated environmental, economic and social responsibility – also known as corporate social responsibility (CSR) – into its Capital Markets business area.

For KfW, corporate social responsibility means two things: investing its own funds on the capital market in a socially responsible manner and using KfW bonds to make itself particularly attractive to other "socially responsible investors" (SRIs).

KfW checks securities investments aimed at securing liquidity against credit rating and CSR criteria

KfW was one of the first German companies to sign the United Nations' "Principles for Responsible Investment" (PRI). Since early 2008, KfW has been assessing not only the credit rating of the securities investments that it holds to secure liquidity, but also compliance with CSR criteria. For this purpose, the bank created its own definition, which encompasses criteria for "environment", "social concerns" and "corporate governance". Since 2010, KfW has also communicated the results of its CSR assessment to its portfolio issuers. The bank has also stepped up the communication of its CSR activities on the capital market overall, in order to help make "sustainable financial investments" and "responsible investment" more mainstream issues for capital market participants.

KfW is also active participant in the global "Carbon Disclosure Project" (CDP). The CDP database gives institutional investors climate-related information on individual issuers of securities. This makes the CDP a valuable decision-making aid for investors who want to analyse not only the profitability of their investment decisions, but also their environmental impact.

KfW bonds are excellent investments in sustainability

Independent rating agencies specialised in the sustainable investment sector analyse and rate the "corporate social responsibility" of equity and bond issuers for institutional investors. In addition to environmental management and the company's offering of products and services, such CSR ratings evaluate a number of other aspects. These include working-time models for employees, organisational measures to combat corruption and the security investment strategies implemented.

KfW has been rated by the two CSR rating agencies Oekom Research and Sustainalytics for many years, and has been assigned a top ranking by each in their international sector comparisons. All KfW bonds thus offer attractive investment opportunities for SRIs.



In 2010, Sustainalytics rated KfW first in the "Development Agencies" category. KfW was ranked third out of the 75 non-listed banks assessed. Oekom Research ranked KfW fourth out of the 21 financial institutions and development banks in the "Development Banks" category. This means KfW is rated a "prime investment".

In order to lend new impetus to the debate on sustainable investment strategies, KfW issued its first KfW microfinance bond in November 2010. The money raised on the capital market is used for all activities of KfW Bankengruppe and by KfW Entwicklungsbank to help sustainably improve people's lives in developing and transition countries. To this end, for KfW Entwicklungsbank microfinance projects KfW will provide an amount from its current refinancing equivalent to the proceeds from the microfinance bond. KfW will assume the full credit risk of the microfinance projects. To find out more please go to www.kfw.de/mikrofinanzanleihe (currently in German only).

With KfW microfinance bonds we are lending fresh impetus to the debate on sustainable investment strategies and offering a fixed-income security that meets sustainability criteria.

SPECIAL CAPITAL MARKET-RELATED TASKS COMMISSIONED BY THE FEDERAL GOVERNMENT

KfW has been commissioned to play a key role in the privatisation of Deutsche Telekom and Deutsche Post. It is also supporting the Federal Republic of Germany in the implementation of EU-wide support measures for Greece.

Privatisation of Deutsche Telekom and Deutsche Post

As part of the privatisation of Deutsche Telekom AG and Deutsche Post AG, and the special transactions commissioned by the Federal Government, KfW had been buying shares from the Federal Government, and selling some of them in various capital market transactions, in several stages from 1997 onward. No further privatisation activities occurred in the year under review. KfW and the Federal Government have agreed that the privatisation will be continued in the long term.

As 2010 drew to a close, KfW holdings in Deutsche Telekom AG and Deutsche Post AG stood at 735.7 million shares and 368.3 million shares respectively. This represented 17.0% and 30.5% of the share capital of the respective companies as at 31 December 2010. Two exchangeable bonds – one exchangeable into shares in Deutsche Telekom AG (issued in 2008; will mature in 2013), one exchangeable into shares in Deutsche Post AG (issued in 2009; will mature in 2014) – would, if fully converted, reduce the respective KfW holdings by 5.4% for Deutsche Telekom AG and by 4.5% for Deutsche Post AG.

Financial support measures for Greece

In order to ensure euro area financial stability, the euro member states agreed in May 2010 to offer Greece financial support in the form of coordinated bilateral loans. The financial aid from the euro group is to be provided on strict terms. These were agreed between the International Monetary Fund, the European Commission, the European Central Bank and Greece.

As a government-owned promotional bank with proven capital market expertise, we support the Federal Government in important special tasks.

As part of a transaction commissioned by the Federal Government, KfW provided Germany's portion of this loan. The Federal Government, which involved KfW in the discussions right from the outset, is providing a guarantee to cover the risks involved. Thanks to its capital market expertise, KfW was in a position to execute this challenging transaction swiftly. During the course of the year, additional support mechanisms were implemented at European level for member states that were no longer able to sufficiently fund themselves on the capital market. These measures were financed without KfW participation.



Loan to Greece


The euro area member states offered Greece total financial aid of up to EUR 80 billion, up to EUR 30 billion of which was to be made available in the first year. The International Monetary Fund is contributing an additional EUR 30 billion. Germany's share, which is disbursed via KfW, amounts to around EUR 22.3 billion, of which up to EUR 8.4 billion was for the first year. Greece may draw on the loan until May 2013. KfW made a total of EUR 5.9 billion available in 2010. Disbursements of around EUR 10.0 billion are expected for 2011.

SERVICES

KfW performs special tasks on behalf of the Federal Government. These range from the privatisation of German state-owned companies to the settlement of outstanding GDR financial burdens.

FINANCIAL REUNIFICATION: TASKS AFTER THE FALL OF THE BERLIN WALL

Even 20 years after the fall of the Berlin Wall, reunification is not quite complete from a financial point of view. Outstanding claims and bank account credit balances were transferred to the Federal Republic of Germany as part of the reunification process. These are managed by KfW.

 The original outstanding claims volume of approximately EUR 3.3 billion has since been reduced to around EUR 9 million. As 2010 came to an end, the fiduciary management of around 10,000 formerly “frozen” bank account credit balances of creditors who left the former GDR (totalling around EUR 36 million) was concluded.

Outstanding financial burdens: Foreign trade relations maintained by the GDR

On behalf of the Federal Government, KfW is handling claims against a number of other countries resulting from intergovernmental agreements on the termination of foreign trade relations with the former GDR. KfW is also handling claims on behalf of the Federal Government on German exporters for reimbursement arising from amounts that were wrongly offset against transfer rubles. The amounts received in this regard are transferred to the Federal Government.

Currency Compensation Equalisation Fund

KfW also administers the Currency Compensation Equalisation Fund, established in connection with German monetary union. As at 31 December 2010, compensation claims had been paid in full. Nevertheless, compensation liabilities to the Inherited Debt Fund remain outstanding.

 Compensation claims of EUR 45.6 billion had been paid in full as at 31 December 2010. The allocated compensation liabilities added up to EUR 1.9 billion. After deduction of the redemption payments already made, EUR 7.5 million in compensation liabilities against the Inherited Debt Fund remain outstanding.

Special tasks

The Finanzierungs- und Beratungsgesellschaft mbH (FuB) is responsible for special tasks relating to currency conversion, specifically, identifying those persons entitled to make claims on foreign currency accounts held by foreign nationals during the GDR era, which were opened during that time and whose beneficiaries resided outside the GDR. A large number of beneficiaries were once again identified and credit balances paid out to them. If beneficiaries cannot ultimately be identified, these credit balances will be transferred to the Compensation Fund at the Federal Office for Central Services and Unresolved Property Issues or to the Currency Compensation Equalisation Fund, pursuant to the outcome of a public notice procedure.

Moreover, the Finanzierungs- und Beratungsgesellschaft (FuB) has also been handling the adjustment and settlement of claims for damages of the former State Insurance Company of the GDR. These involve insurance obligations resulting from damages that occurred on GDR soil or were caused by its citizens abroad. As of 1 January 2008, KfW became the legal successor of the liquidated State Insurance Company of the GDR, with the FuB acting as agent in managing the related tasks.



A wide-ranging remit

In more than 250 cases, credit items worth approximately EUR 0.2 million have been paid out to previously unknown creditors / the responsible compensation fund. As at 31 December 2010, only about 1,727 accounts representing a total of around EUR 2.3 million remained. Around 870 additional accounts containing almost EUR 680,000 are to be paid into the Currency Compensation Equalisation Fund. There were still approximately 1,740 outstanding insurance claims involving the former State Insurance Company of the GDR as at 31 December 2010.

OTHER SERVICES

Compensatory Fund for Securities Trading Companies

The Compensatory Fund for Securities Trading Companies (EdW) was set up in 1998. It is managed by KfW and insures small investors against loss on their claims arising from securities transactions up to the minimum amount laid down by law. It is a Federal Government special fund without legal capacity.

 In the year under review, EdW processed 11,450 claims and paid out compensation amounting to around EUR 56 million.

Since EdW was established it has handled 18 compensation proceedings with around 26,000 investor applications and a compensation volume of approximately EUR 118 million.

Foundations

In the year under review KfW also managed the Contergan Foundation for the Disabled (*Contergan-Stiftung für behinderte Menschen*) and a foundation which provides humanitarian aid for people infected with HIV through blood products (*Humanitäre Hilfe für durch Blutprodukte HIV-infizierte Personen*) on behalf of the Federal Government.

The services provided by the Contergan Foundation for the Disabled were transferred to the Federal Office for Civilian Service in Cologne as of 1 October 2010.

For the time being, arrangements have been put in place to ensure the continued existence of the foundation providing humanitarian aid for people infected with HIV through blood products. All benefactors – the Federal Government, federal states, pharmaceutical companies and the German Red Cross – have agreed to make further contributions to the financing of the foundation. This means that people infected with the human immunodeficiency virus (HIV) through blood products in the early 1980s will continue to receive financial support beyond 2010.

KfW paid out around EUR 39 million in compensation to some 3,300 beneficiaries through these two foundations in 2010.

THE MEN AND WOMEN ON OUR STAFF

We see our staff as the most important capital asset at KfW. After all, only a strong workforce can provide the key competitive advantage for future success.

PERSONAL ACHIEVERS: THE MEN AND WOMEN ON OUR STAFF

2010 can be seen as a particularly successful year. This was thanks not only to the increased commitment volume and encouraging result, but also to the many organisational changes and efficiency improvements. Through their dedication and commitment, all our staff played their part in achieving this successful outcome. With their high levels of commitment and motivation they demonstrated just how ready they are to meet the challenges of the future. The achievements of our staff are rewarded through a remuneration system that meets statutory requirements, while being tailored to our business model as a promotional bank. This ensures that performance is fairly rewarded and demonstrates KfW's responsible attitude and the high value it places on its staff.

Through their dedication and commitment, all our staff played their part in the company's success.

Personnel

At year-end 2010 KfW employed 3,777 people (2009: 3,568). This means that the workforce expanded by 5.5% (2009: 2.4%). This primarily benefited KfW's credit departments. The growth reflected the high commitment volume both in domestic promotion and in the financing of investments and advisory services in developing countries. It was also accompanied by a significant reduction in temporary employment arrangements.

A moderate reduction in the number of staff is expected in 2011, once the Federal Government's special programmes expire. This will be achieved through natural fluctuation.

The proportion of staff not covered by collective agreements, at around two thirds of the entire workforce, remained more or less constant compared with the previous years. The proportion of part-time employees rose once again to 19% (2009: 18.1%).

A moderate reduction in the number of staff is expected in 2011, once the Federal Government's special programmes expire.

The proportion of employees with severe disabilities was 5.6% (2009: 5.8%). The bank will remain committed to employing staff with severe disabilities and will go beyond the statutory minimum in this regard.

Objectives management and remuneration

The staff agreement entitled "Salary determination and remuneration at KfW" came into effect on 1 January 2010. The agreement is binding for the entire workforce. It takes into account KfW's business model as a promotional bank and complies with the relevant regulations for bank remuneration systems. The staff agreement strictly rules out misdirected incentives for KfW staff, while allowing appropriate rewards for their performance within the budget, which is decided upon each year by the Executive Board.

Remuneration is based on a systematically developed objectives management system with annual performance appraisals. All KfW managers were trained at the beginning of the year and supported in implementing the objectives in their areas of responsibility. This ensured that the objectives matched KfW's corporate and risk strategies.

The performance appraisal at the end of the year considers both qualitative aspects and behavioural criteria. As with the agreement of the annual targets for 2010, the appraisals at the turn of the year (2010/2011) were accompanied by systematic training for all managers. The appraisal meetings also gave employees the opportunity to offer feedback to their managers, allowing all concerned to gain a more rounded perspective.

Succession management

KfW's succession management aims to systematically promote the development of managerial staff on the basis of reviews, and to identify potential staff shortages in plenty of time. The procedure introduced in 2009 supports targeted and needs-based personnel development. It also promotes equal opportunities for everyone involved. Recruitment decisions are still based on well-established selection procedures.

In 2010, the succession management programme began delivering important information on staff potentials, succession structures, demographics and gender equality issues at KfW. The findings were discussed with the relevant departments. Where necessary, this led to specific measures such as the swift appointment of staff for vacant positions, and the encouragement of job rotation. A strategy to promote equal opportunities was also developed.

Succession management supports targeted and needs-based personnel development.

Managers also benefit from succession management. Their potential is identified early on, enabling the bank to help plan their careers and develop the specific skills they will require for their future responsibilities.

Equality at KfW

Under KfW's personnel policy, ensuring equal rights for male and female employees and creating a work-family balance are top priorities. This principle is based not only on conviction, but also on years of experience with members of staff who perform their duties at KfW with great professionalism and outstanding results. Many of these individuals also set an example of how to combine a career with family life.

KfW employed almost equal numbers of men and women in 2010, as in previous years. Staff turnover means that KfW is continually increasing the number of women appointed to managerial positions. One significant step forward in 2010 was the year-on-year increase of 5% in the proportion of women working at head of department level. Overall, women occupy a 14% share of positions at divisional director level, a 19% share at head of department level and a 30% share at team leader level, which means that the proportion of female managers is still falling somewhat short of the target.

Female managers have a positive influence on corporate cultures.

Female managers have a positive influence on corporate cultures. This piece of common knowledge also holds true at KfW. Female managers are fully integrated into our management structures and enjoy good working relationships with their colleagues. Their professional and personal qualities are acknowledged by staff. In view of demographic change, no company can afford to do without the professional expertise of women. KfW actively seeks female managers. Representatives of the Human Resources Department and the equal opportunities officer ensure that women with managerial potential are made aware of relevant job vacancies, and invited to apply. The measures included in our Equal Opportunities Plan support and complement this process.

Work-family balance

KfW was certified a family-friendly company by the Hertie Foundation back in 2001, and was one of the first German companies to receive this recognition. KfW maintained this family-friendly status in 2010 after being assessed for the third time. This confirms that KfW and its staff have been able to meet the high standards of the Hertie Foundation despite the intense business activity of recent years. This is in the interests of all our staff, regardless of their gender.

KfW supports its staff and helps them balance their career and family life to suit their needs.

As part of the evaluation, staff were asked to complete a questionnaire on work-family balance. Almost half the workforce took part, which helped provide as representative a picture as possible. The overall result was positive. Although there was evidence of the challenges faced in recent years, the survey confirmed that KfW's corporate culture and stance is more family-friendly than average compared with other companies. This is the experience of KfW managers and staff, even when challenging periods such as the economic crisis make it hard to strike the optimum balance between work and family.

KfW supports its staff and helps them balance their career and family life to suit their needs. This also applies to childcare, an area where public provision does not fully meet those needs. In 2010, the particularly high demand for crèche places in Frankfurt inspired the establishment of the bank's second kindergarten.

Change management

Change – whether planned or externally induced – is part of everyday life in a company. This is where systematic management helps us succeed in meeting our challenges and achieving our aims. Key strategic change projects at KfW recently included the "Vision IT 2020" project and "Simply better" - a project that introduces a continuous process of improvement. The bank's human resource and organisational development teams provided professional guidance in the design and execution of these projects, as well as other changes, and supported them with change management measures.

Needs-based training policy

KfW bears a high level of social responsibility towards young people, which is why in recent years it has offered trainee positions that went far beyond the company's own business needs. This level of training was also maintained throughout the financial crisis. The situation in the training market has now improved considerably, allowing us to match our trainee numbers more closely with our own needs. This adjustment also takes into account predicted demographic trends. The most important basis for decisions on training is dialogue with the relevant departments. Training remains one of the main human resource investments that KfW makes.

Training young talents

As at the end of 2010, 176 young people were undergoing their first vocational training course, 115 of whom were on dual degree programmes involving work placements (2009: 172, 112 of whom were pursuing dual degrees). On 31 December 2010 the number of trainees stood at 41 (2009: 30). In the course of the year, 97 students completed internships at KfW. As the year drew to a close, the total number of interns, dual degree students, and vocational and graduate trainees was 233 (2009: 219). This equated to a training rate of 6.2% (2009: 6.1%).

Thank you

In 2010 the conditions for a successful working environment within KfW had to be carefully nurtured once again and, to some extent, re-defined. Personnel, social, organisational and economic issues were handled through close cooperation between the relevant employee representatives, equal opportunities officers and the representative for employees with severe disabilities. We would like to thank all the bodies and representatives, and their deputies, for the good working relationship based on trust that we enjoyed in 2010.

IN MEMORIAM

We mourn the loss of three of our colleagues who passed away in 2010:

Jürgen Harms
Gerald Küllmer
Alfred Schösser

We also mourn the passing of the following retired members of our staff:

Margarete Arndt	Hannelore Jahn	Gertrud Müller
Werner Burow	Helmut Jentszok	Dr Walter Ritter
Inge Dawart	Gerd Kehren	Franz Rudolf
Karla Evans	Hans-Dieter Kleimann	Sofija Scheier
Annelies Fuhrmeister	Hildegard Krebs	Zita Schlamb
Margot Greinert	Peter Mierbach	Heinz-Peter Steffey
Maria Gsella	Fritz Milka	Gisela Weber

We will always remember with gratitude all of our colleagues and retired members of staff who have passed away.

FINANCIAL REPORTING

The unusually favourable overall environment had a very positive effect on KfW's result. A sustained improvement in the capital base will secure the long-term continuation of our promotional activities. KfW is building its future on solid foundations.

FINANCIAL REPORTING

The complete consolidated financial statements including the Group management report are included in our Financial Report, which is available for download from our website. The annual financial statements and the management report of KfW are also available for download. The auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified opinion on both the consolidated and the individual financial statements as at 8 March 2011.

General economic environment

Global economic recovery continued in 2010. This recovery was mainly due to continuing highly-expansive monetary policy and fiscal stimuli in many countries.

All in all, global gross domestic product increased by around 5% in 2010 in real terms. The growth drivers proved to be, above all, the Asian emerging markets. In most industrialised countries, on the other hand, the structural repercussions of the global financial crisis remained noticeable. Development on the financial markets was hampered by growing concerns about rising government budget deficits resulting from the crisis. Credit default expectations rose considerably, particularly for some euro area member states. However, the aid measures in response and the newly-established euro rescue package were unable to calm the financial markets for long. In view of the difficult financial market environment, the central banks maintained their highly expansive monetary policy. This resulted in extremely low money market rates and relatively steep yield curves on average.

The German real economy recovered considerably more quickly and strongly from the economic crisis than had been expected at the beginning of the year. Gross domestic product grew by 3.6% in real terms. Germany entered the crisis with an economy in relatively good structural health and – because it is highly export-oriented – benefited particularly well from growing momentum in the global economy. At the same time, domestic demand also revived significantly, thanks among other factors to falling unemployment. Government finances performed significantly less badly than had been feared at the beginning of the year. Nevertheless, the German government deficit amounted to 3.5% of gross domestic product, due in large part to the after-effects of the stimulus measures.

Major KfW Group developments

The overall environment for the KfW Group was unique in 2010. The Group benefited from considerably improved growth and a low level of risk, as well as from continuing attractive refinancing conditions with low interest rates. Business activity therefore generated record earnings of EUR 2.6 billion, compared to EUR 1.1 billion in the previous year.

This will enable the capital base to be strengthened, thus securing KfW's promotional capacities for the long term and in preparation for stricter capital requirements.

Record demand for KfW products

The total volume of promotional business in 2010 was EUR 81.4 billion, of which almost a third was allocated to climate and environmental protection. The focus of business activities was again on promoting the economy, the environment, housing and education in Germany, with a volume of EUR 66.6 billion (+31%). KfW thus played a significant role in alleviating the impact of the economic and financial crisis on German companies and in laying the foundations for economic recovery. At EUR 15.0 billion, commitments in international business in 2010 were also above the previous year's level (+12%). This increase resulted both from export and project finance, and from the promotion of developing and transition countries.

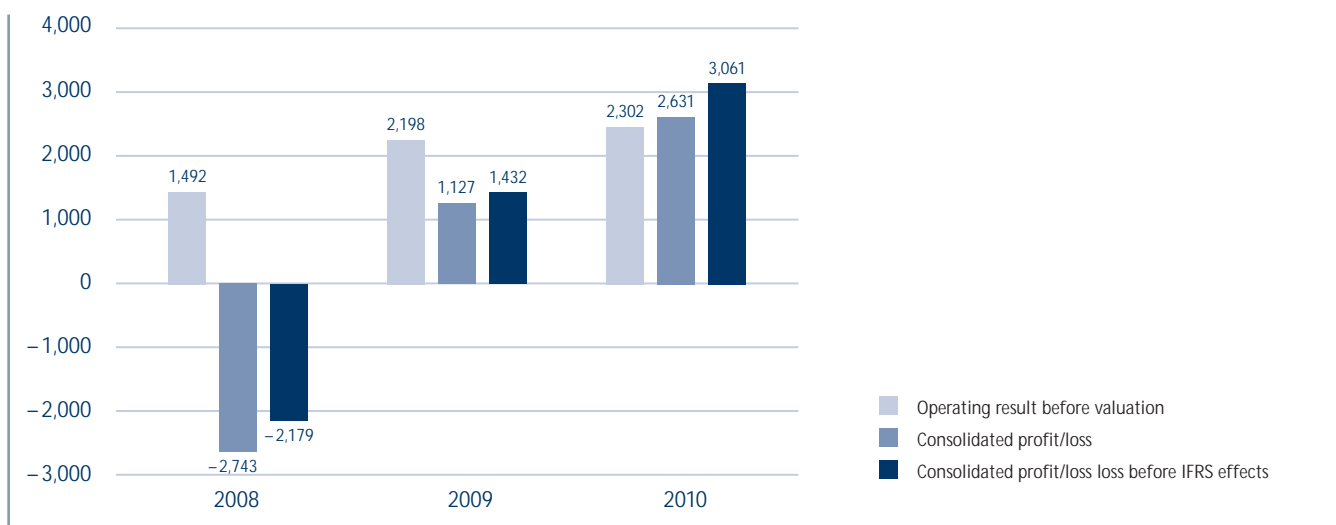
KfW was also mandated by the Federal Government to participate, without assuming any risk, in the European Union measures to refinance Greece, and granted a loan of EUR 22.3 billion in this context. The total commitment volume was therefore EUR 103.7 billion.

The consolidated total assets of the Group increased by EUR 41.7 billion to EUR 441.8 billion. This growth is attributable primarily to new lending business in Germany, with an increase of EUR 27.7 billion in total loans and advances to EUR 345.4 billion. In addition, particularly the conversion of funding in USD in connection with currency derivatives used for hedging purposes, had a positive effect on total assets. The growth in total assets resulted from increased issuing activities. The volume of own issues reported under certificated liabilities was EUR 358.0 billion.

In 2010 the earnings position was characterised by

- A stable operating result at a consistently high level
- An earnings benefit from the global economic recovery
- Effects due to continuing uncertainty on the financial markets

Operating result before valuation, consolidated profit/loss, consolidated profit/loss before IFRS effects from hedging (figures in EUR millions)



Stable operating result at a consistently high level

The operating result before valuation proved stable at a consistently high level, with a slight increase to EUR 2,302 million. The Group's major source of income remained net interest income. The Group benefited from the very good financing opportunities available to KfW. These were a result of KfW's first-class credit rating combined with the general favourable interest rate environment with very low short-term rates. At EUR 558 million, the interest rate reductions as a component of KfW's promotional business remained at a high level.

Earnings benefit from global economic recovery

The significant increase in consolidated net income in 2010 was primarily a result of the Group's risk situation, which has improved considerably thanks to the economic recovery over the course of the year. While maintaining the same conservative risk policy, risk provisions were reduced by a total of EUR 424 million through profit or loss, after the increased need for risk provisioning had a considerable negative effect on earnings in the previous year of EUR 972 million.

In particular, collective impairments for latent risks in the loan portfolio were reversed. These impairments were recognised to account primarily for those sectors and countries that were particularly hard-hit by the recession. The provision for immediate lending risks was more than offset by recoveries on loans already written off.

The equity investment portfolio also benefited from the improved economic situation and closed the year with a very positive earnings contribution of EUR 163 million, after recovering from the negative impact on earnings of poor economic performance in the previous year.

Effects due to continuing uncertainty on the financial markets

After improvements on the financial markets in 2009, the situation worsened again considerably due to problems in the European government debt sector, and at the end of 2010 remained characterised by continuing high levels of uncertainty.

Although to a lesser extent than in the previous year, the KfW Group's securities portfolio nevertheless yielded both net gains recognised on the income statement of EUR 107 million, and net gains recognised directly in equity of EUR 22 million. As a result of the support measures introduced, the price losses for securities and investments not carried at fair value were not considered to be permanent and therefore had no effect on profit or loss.

Charges resulted from the valuation of derivatives used exclusively to hedge risks that arise in connection with refinancing. Accordingly, the resulting effects on earnings were not economically meaningful, as they will offset each other again in the future. To aid transparency, KfW reported a consolidated profit adjusted for these effects of EUR 3,061 million.

Strengthening the Group's capital base

The record profit of EUR 2.6 billion enabled the full recovery of the remaining balance sheet loss of EUR 1.5 billion caused by the IKB rescue measures. The remaining profit was used to increase retained earnings and strengthen the fund for general banking risks. With the addition of EUR 0.6 billion to the fund for general banking risks, the strategy of maintaining separate risk provisions has been resumed. Such risk provisions of EUR 5.3 billion at year-end 2006 had been fully used in the IKB rescue in 2007. There was a sustained improvement in the Group's capital base in 2010, which is helping secure KfW's promotional capacities for the long-term and prepare for the stricter capital requirements in accordance with Basel III.

Development of the risk situation

In 2010, the European financial sector was heavily impacted by the negative effects of the sovereign debt crisis in Europe on the earnings and funding situation. The governmental support measures to safeguard the liquidity of euro-zone countries have had – and continue to have – a risk-mitigating effect, as do the refinancing instruments provided by the ECB. In addition, the quality of loan portfolios deteriorated further in some countries (e.g. Portugal, Spain, Ireland and Greece). All in all, the risks in the banking sectors of some European countries remain substantially heightened in 2011. Furthermore, the higher capital and liquidity requirements under Basel III will pose a great challenge to the majority of banks over the next few years.

The overall positive economic development worldwide was also a positive factor for the various corporate segments in Germany. Sectors that were particularly hard hit by the crisis, such as the aviation and automotive industries, showed significant recovery and in some cases were back close to pre-crisis levels. The clear trend towards recovery has enough potential for continued positive development in 2011. However, the latent danger due to the strong export focus should not be completely ignored.

KfW Bankengruppe has also been affected by the aforementioned developments due to its international promotional mandate. However, the effects on the Group portfolio were manageable overall. The regular calculations of risk-bearing capacity show that the KfW Group can bear the risks assumed in the context of its mandate. All recognisable risks are measured using conservative standards and are taken into account in the new business management system through systematic establishment of risk guidelines.

As in the previous years, KfW systematically further developed its processes and instruments in risk management and control in financial year 2010, also taking heed of experience gained from the financial market crisis. The key issues were revising the strategy for risk-bearing capacity and developing a systematic and intensive sector monitoring process. KfW IPEX-Bank and DEG were also further integrated into Group risk management. The ongoing development of processes and instruments in risk management and control in 2011 will be strongly affected by the developments in the banking supervision environment. The current focus in this regard is on the third amendment to the MaRisk requirements for risk-bearing capacity, as well as on strategy and the stress tests, the implementation of the amendments to the German Banking Act (*Kreditwesengesetz – KWG*), particularly relating to securitisation, and the foreseeable changes under Basel III, meaning increased liquidity and capital requirements.

Risk management within the KfW Group chiefly serves to preserve the Group's risk-bearing capacity. For the risk-bearing capacity analysis, risk must be measured and compared to risk-covering potential by means of a capital requirement calculation.

As at 31 December 2010, KfW had sufficient economic risk-bearing capacity to satisfy a solvency level of 99.99%. Any additional capital requirements for stress scenarios are covered by the unrestricted portion of the risk-covering potential, ensuring that risk-bearing capacity at a solvency level of 99.99% is attained even under unfavourable macroeconomic conditions.

The regulatory capital ratios have significantly improved year-on-year. The tier 1 capital ratio increased in the course of the year to 12.4% (2009: 9.4%); the total capital ratio rose to 14.7% (2009: 11.7%).

The impacts of the financial market crisis and the increasingly critical debt situation in some countries, particularly in the euro area, meant that the general market environment was characterised by a high degree of nervousness and volatility overall. In this environment, KfW's strengths – its top-notch credit rating combined with a transparent issue strategy – were highly regarded on the international capital markets. There were therefore no negative effects on KfW's funding situation at any time.

Outlook

Global economic development will remain mixed in 2011. The Asian emerging markets are likely to record high growth rates again. By contrast, the economic environment in industrialised economies will remain difficult, and not only with regard to government finances. Monetary policy will continue to be highly expansive for a long time yet in most industrialised nations, while in some emerging markets the pressure is rising to take action against rising inflation. Overall, the upward trend in the economy is likely to continue in 2011, although momentum may slow somewhat in comparison with the previous year.

The exceptional growth in KfW's promotional volume recently was a result of the crisis. The stabilisation of the economy will serve to normalise the promotional volume in 2011. KfW is concentrating on supporting SMEs, ensuring the future viability of companies, protecting the climate and the environment, promoting housing and education, and improving municipal infrastructure. New domestic business totalling around EUR 48 billion is expected in 2011, together with new contracts worth EUR 3.5 billion as part of securitisation activities. Other key areas are strengthening cooperation with developing, transition and emerging countries, and expanding support for the export sector, for which a total new business volume of around EUR 15 billion is targeted. KfW expects a stable refinancing volume of around EUR 75 billion.

In its current earnings projections for the Group, KfW expects to achieve total earnings of approximately EUR 1 billion in 2011. The key assumption for this forecast is a continuing economic recovery from the economic and financial crisis with a slight slowdown in the rate of growth. All in all, KfW predicts economic conditions that will lead to decreases in net interest income, although this is nevertheless expected to remain at a high level. A normalisation of risk provisions for lending business is expected for 2011, which means a rise in comparison to 2010. These developments are expected to be offset by improvements in the valuation result. However, there may also be fluctuations in earnings from IFRS-compliant hedge accounting in the future, although from an economic point of view these are unfounded. Given the after-effects of the financial market and economic crisis, the forecast remains subject to a large degree of uncertainty, particularly with respect to the development of interest and exchange rates.

CORPORATE GOVERNANCE

KfW recognises the principles of the corporate governance code applicable in Germany. In this way it strengthens trust in responsible and transparent corporate governance, since sustained value creation requires security and continuity.

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

Dr Wolfgang Schäuble
Federal Minister of Finance



Meetings of the Board of Supervisory Directors

The Board of Supervisory Directors with its Committees has continually supervised the conduct of KfW's business and the administration of its assets, and it has taken the necessary decisions on the provision of financing and the conduct of other business in accordance with the conditions set forth in the Law concerning KfW and the By-Laws. For this purpose the Board of Supervisory Directors and the Executive Committee each held three meetings while the Loan Approval Committee and the Audit Committee held two meetings in 2010.

At the meetings the Executive Board informed the Board of Supervisory Directors of:

- the business activities and current developments in KfW's individual fields of activity,
- the Group's net assets, earnings position and risk situation,
- particularly sensitive areas such as the development of the remaining risk positions from the risk protection afforded to, and the sale of, the equity interest in IKB, the ship portfolio and the exposure to European banks,
- KfW's new risk-bearing capacity concept and
- KfW's risk and business strategy for the year 2011.

The Board of Supervisory Directors and the Executive Board have also expressed the intention that KfW will essentially apply the regulations of the second section of the German Banking Act accordingly and that this will exclude business in which the Federal Republic of Germany has an interest (allocation business).

In the reports on the activities of the individual fields of business, the primary focus was on the following developments:

- In regard to the domestic promotion activities, the Executive Board reported on the state of implementation and the impacts of the KfW Special Programme and the other measures with which KfW has been supporting the Federal Government in the implementation of the agreed economic stimulus measures. In addition, the Executive Board presented new products for small and medium-sized enterprises and

in the area of housing and municipal finance which were introduced in the year under review and being planned for the following year.

- With a view to KfW Entwicklungsbank, the Executive Board reported on KfW's proposals for increasing Germany's ODA commitments through the expansion of development finance based on the bank's own funds, emerging markets funds and the German Climate Technology Initiative.
- In relation to KfW IPEX-Bank GmbH and the business area of Export and project finance, the reporting was primarily centred on the financing operations performed in the interest of the German and European economy against the backdrop of the financial and economic crisis.
- The Board of Supervisory Directors was also informed of the various measures adopted to further reinforce the commitment of KfW Bankengruppe to sustainability, among them the energy efficiency of the "West Arcade" building at the Frankfurt location, which KfW occupied in the summer of 2010, and the continued growth in importance of KfW's products and financings in this segment.

The Board of Supervisory Directors was informed quarterly about the Group's net assets, earnings position and risk situation, and the development of its promotional business. In this connection, the Board of Supervisory Directors and the Audit Committee concerned themselves especially with the risks of the industries and regions affected by the financial market crisis.

The Executive Board also discussed KfW's strategic orientation with the Board of Supervisory Directors. Potential new promotional activities and conceivable modifications in the definition of priorities were discussed. The continued positive development of the Group's profitability and the associated improvement of its risk-bearing capacity were also highlighted as fundamental objectives. The Board of Supervisory Directors approved the budgets associated with the planning for the year 2011.

In 2010 the Board of Supervisory Directors reviewed the compensation scheme for the Executive Board members.

Legal disputes

The Board of Supervisory Directors was informed of the current state of the lawsuits filed by the Executive Board members removed and dismissed in 2008 as a consequence of the Lehman incident and agreed to a settlement with one of the former Executive Board members and the D&O insurance company. The Executive Board also informed the Board of Supervisory Directors of lawsuits in connection with the "Rhineland" conduit taken over by IKB.

Corporate Governance

The Board of Supervisory Directors and the Executive Board of KfW in late 2009 decided to adopt the Federal Public Corporate Governance Code (Public Corporate Governance Kodex – PCGK). In implementing this decision, the Board of Supervisory Directors on 1 January 2011 approved an amendment to KfW's By-Laws, adopted Rules of Procedure of its own which comprise the regulations governing the work of the Board of Supervisory Directors, and approved the revised Rules of Procedure for the Executive Board. In addition, the submission and reporting obligations of the Executive Board to the Board of Supervisory Directors and its Committees were rewritten. The primary aim of these measures was to further enhance the transparency of KfW's By-Laws.

Committees of the Board of Supervisory Directors

In addition to the affairs of the Executive Board and the real estate matters of KfW, the Executive Committee also concerned itself with the amendments to the regulations of KfW in the course of implementation of the Corporate Governance Code.

The Loan Approval Committee reviewed the commitments that have to be presented to it under the Law concerning KfW (KfW Law) and By-Laws and was informed of the credit risks. KfW's new risk-bearing capacity concept was presented in the Loan Approval Committee and in the Audit Committee. The new concept more strongly integrates economic and regulatory targets in the management of KfW's risk-bearing capacity, incorporates stress scenarios and establishes processes for the assessment of the future risk-bearing capacity. Moreover, against the background of the financial market crisis both committees concerned themselves in particular detail with the development and risk management of KfW's securities portfolio, the ship portfolio, the exposures to European banks and the remaining risks in connection with the risk protection afforded to, and the sale of, the equity interest in IKB.

The Audit Committee concerned itself with the quarterly and risk reports as well as the annual statements of KfW Bankengruppe, and it was informed of the impacts that the German Accounting Principles Modernisation Act (Bilanzmodernisierungsgesetz) and the planned new capital regulations for banks (Basel III) will have for KfW. It made corresponding recommendations to the Board of Supervisory Directors for the preparation of the annual financial statements and the appointment of the auditor.

The committee chairpersons reported to the Board of Supervisory Directors regularly on the work of the committees.

Changes on the boards

At the proposal of the Executive Committee, the Board of Supervisory Directors in its meeting of 8 December 2010 again appointed Dr Günther Bräunig as a regular Executive Board member for the term from 1 October 2011 to 30 September 2016.

As was agreed, in my capacity as Federal Minister of Finance I assumed the position of Chairman of the Board of Supervisory Directors for 2011 from my colleague Rainer Brüderle, Federal Minister of Economics and Technology.

During the reporting period, Christian Brand, Prof. Dr Kurt Faltlhauser, Axel Gedaschko, Roland Koch, Dr Helmut Linssen, Hartmut Möllring, Alexander Rychter and Christine Scheel resigned from the Board of Supervisory Directors. The Board of Supervisory Directors would like to thank these former members for their work on the board. In the year 2010 Dr Norbert Walter-Borjans and on 1 January 2011 Norbert Barthle, Jan Bettink, Volker Bouffier, Ingeborg Esser, Georg Fahrenschon and Stefan Mappus joined the Board of Supervisory Directors.

Annual financial statements

KPMG, who were appointed auditors for the 2010 financial year, have audited the annual financial statements and the management report of KfW as well as the consolidated financial statements and the Group management report of the KfW Group, all of which were prepared as at 31 December 2010 by the Executive Board, and issued an unqualified auditor's report thereon. The financial statements and the management report were prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch – HGB*) and the consolidated financial statements and the Group management report were prepared in accordance with International Financial Reporting Standards (IFRS), as applicable in the European Union.

At its meeting on 6 April 2011 the Board of Supervisory Directors approved the financial statements and the consolidated financial statements, both of which were prepared by the Executive Board, as stipulated in Article 9 (2) of the Law concerning KfW following a recommendation by the Audit Committee.

Frankfurt am Main, 6 April 2011

THE BOARD OF SUPERVISORY DIRECTORS



Chairman

CORPORATE GOVERNANCE REPORT

As the promotional bank of the Federal Government, KfW has committed itself to making responsible and transparent actions understandable. The Executive Board and Board of Supervisory Directors of KfW have resolved to recognise the principles of the Federal Public Corporate Governance Code (*Public Corporate Governance Kodex des Bundes – PCGK*) and apply them at KfW. A declaration of compliance with the recommendations of the PCGK is being submitted for the first time for financial year 2010. Any potential deviations are disclosed and explained.

KfW is a public law institution under the KfW Law. The Law sets out KfW's main structural features. For example, KfW does not have a shareholders' general meeting. The shareholders are represented on the Board of Supervisory Directors of KfW and exercise control and shareholder functions (e.g. approval of the annual financial statements and adopting resolutions concerning the KfW By-Laws). The number of members, membership structure and duties of the Board of Supervisory Directors are set out in the KfW Law. It also provides that the Board of Supervisory Directors is subject to supervision by the Federal Ministry of Finance in consultation with the Federal Ministry of Economics and Technology as well as direct control of the Bundesrechnungshof (Federal Audit Office).

To implement the PCGC, KfW amended its By-Laws during the course of 2010, adapting the rules of procedure for the Executive Board, and including the procedural requirements in a new version of rules of procedure for the Board of Supervisory Directors. This process also included adapting proposals and legal requirements for joint stock companies where KfW saw the application to be feasible and appropriate. The new rules and regulations became effective on 1 January 2011.

Declaration of compliance

The Executive Board and Board of Supervisory Directors of KfW hereby declare: "The recommendations of the Public Corporate Governance Code of the Federal Government, as adopted by the Federal Government on 1 July 2009, and to the extent they are applicable for KfW as a public-law institution, were fulfilled with the exception of the following recommendations."

D&O insurance deductible:

The existing D&O insurance contract of KfW for the Executive Board and Board of Supervisory Directors of KfW does not include a deductible, contrary to clause 3.3.2 of the Code. The future form of the insurance is currently under consideration. The members of the Federal Government who are members of the Board of Supervisory Directors have not received compensation since financial year 2010. The other members of the Board of Supervisory Directors receive relatively low compensation.

Thus the insurance deductible of "zero" for members of the Board of Supervisory Directors is thus considered appropriate.

Delegation to committees:

The KfW Law sets out the size of the Board of Supervisory Directors at 37 members and its structure. The actions of the Board of Supervisory Directors are ratified via committees, which have the advantage of being specialised in the subject matter and flexible in terms of time. In some cases, the committees not only prepare the decisions of the Board of Supervisory Directors but also – in derogation of clause 5.1.8 of the Code – make final decisions. This is done for reasons of practicality and efficiency.

- ▀ The **Executive Committee** makes final decisions in the following cases: It resolves measures dealing with important administrative matters and can make urgent decisions in pressing matters. The Executive Committee also accepts reports on Executive Board member conflicts of interest, in lieu of the Board of Supervisory Directors, in derogation of clause 4.4.3 of the Code. The Chairman of the Executive Committee approves secondary employment of Executive Board members instead of the Chairman of the Board of Supervisory Directors, in derogation of clause 4.4.4 of the Code.
- ▀ The **Credit Committee** gave final approval in 2010 to financings of up to and including EUR 100 million. It is standard procedure at banks for the final decision to be made by a credit committee. It serves to accelerate and bundle committee expertise.

Distribution of responsibilities:

The Executive Board has established rules of procedure for itself with the approval of the Board of Supervisory Directors, which govern cooperation at the management level. These rules stipulate, in derogation of clause 4.2.2 of the Code, that the Executive Board itself determine departmental responsibilities outside the rules of procedure. This ensures the required flexibility for making essential changes and thus efficient division of labour.

Loans to members of the bodies:

No personal loans were granted to members of the bodies in financial year 2010, in accordance with the recommendations in clause 3.4 of the Code. The amended By-Laws stipulate that KfW may no longer grant individual loans to members of the Executive Board and Board of Supervisory Directors. For reasons of equal treatment, this does not apply to utilisation of promotional loans made available under the KfW programmes. Due to standardisation of lending and the principle of on-lending through applicants' own banks there is no danger of conflicts of interests concerning programme loans.

Cooperation between the Executive Board and Board of Supervisory Directors

The Executive Board and Board of Supervisory Directors work closely together for the benefit of KfW. The Executive Board maintains regular contact with the Chairman and Deputy Chairman of the Board of Supervisory Directors and discusses important issues concerning the management of the bank and strategy with them. The Chairman of the Board of Supervisory Directors informs the Board of Supervisory Directors of issues of major significance, and, if necessary, convenes an extraordinary meeting.

During the reporting year, the Executive Board informed the Board of Supervisory Directors about all relevant matters regarding the bank's planning, results of operations, risk assessment, risk management and financial position.

Executive Board

The Executive Board is responsible for managing the activities of KfW pursuant to the KfW Law, its By-Laws and the procedural rules for the Executive Board.

The members of the KfW Executive Board assumed the following responsibilities during the year under review:

- Dr Ulrich Schröder – Chief Executive Officer, Sales, Operational Management, Internal Auditing, Legal Affairs/Compliance and Sustainability
- Dr Günther Bräunig – Capital Market, Asset Securitisation, HR, Organisation and Internal Consulting
- Dr Norbert Kloppenburg – International Financing, Central Services
- Bernd Loewen – Risk, Finance, Restructuring, Transaction and Collateral Management
- Dr Axel Nawrath – Domestic Promotion, Environment, Information Technology

Executive Board members are obliged to act in the best interests of KfW, may not consider private interests in their decisions, and are subject to a comprehensive non-competition clause during their employment with KfW. Members of the Executive Board must disclose any conflicts of interest to the Executive Committee and their colleagues on the Executive Board without delay. No such situation occurred during the reporting year.

Board of Supervisory Directors

The Board of Supervisory Directors supervises and advises the Executive Board in the management of the bank.

In accordance with the KfW Law, the Board of Supervisory Directors consists of 37 members. In accordance with the law, seven Federal Ministers are members of the Board of Supervisory Directors. The Federal Minister of Finance and the Federal Minister of Economics and Technology alternate on a yearly basis as Chairman of the Board of Supervisory Directors. The Chairman of the Board of Supervisory Directors in the reporting year was Federal Minister Rainer Brüderle. There were six female members of the Board of Supervisory Directors during the reporting year.

No member of the Board of Supervisory Directors may have a business or personal relationship with KfW or its Executive Board which could be grounds for a significant non-temporary conflict of interest. Every member of the Board of Supervisory Directors is obliged to disclose conflicts of interest to the Board of Supervisory Directors. No such situation occurred during the reporting year.

Seven members of the Board of Supervisory Directors attended fewer than half of the board meetings in the reporting year.

Committees of the Board of Supervisory Directors

The Board of Supervisory Directors has established three committees to fulfil its monitoring responsibilities in a more efficient manner.

The **Executive Committee** is responsible for all legal and administrative matters, as well as the bank's business and corporate policy matters; it also makes urgent decisions in pressing matters.

The **Credit Committee** is responsible for all credit related issues.

The **Audit Committee** is responsible for accounting and risk management issues. In particular it monitors the accounting process, the effectiveness of the internal control, internal auditing and risk management systems, the auditing of the consolidated and annual financial statements and the required auditor independence, as well as establishing audit priorities.

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 take responsibility for tasks delegated to the committees at any time.

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

Shareholders

The Federal Government owns 80 % of KfW's share capital; the German Federal States 20 %. In accordance with section 1a of the KfW Law, the Federal Republic of Germany is liable for specific KfW liabilities. There is no profit distribution. The KfW Law does not require a shareholders' general meeting; the Board of Supervisory Directors performs the function of a shareholders' general meeting.

Supervision

KfW is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry of Economics and Technology. The supervisory authority is authorised to adopt all measures necessary to ensure that KfW operates its business activities in accordance with the By-Laws and other rules and regulations.

KfW is not subject to banking supervision regulations although it does apply the relevant norms of the German Banking Act, particularly the minimum requirements for risk management and the German Solvency Regulation (*Solvabilitätsverordnung – SolvV*). The Group company KfW IPEX-Bank GmbH, however, is fully subject to the provisions of the German Banking Act.

Transparency

KfW provides all important information about the bank's consolidated and annual financial statements, the semi-annual report and the financial calendar on its website. Investor relations activities and corporate communications also involve regular announcements on the latest company developments. The annual Corporate Governance Report and Declaration of Compliance with the PCGC are always available on the KfW website.

Risk Management

Risk management and risk control are primary responsibilities of overall bank management at KfW. Using the risk strategy, the Executive Board defines the framework for the bank's business activities regarding risk tolerance and risk-bearing capacity. This ensures that KfW fulfils its unique responsibilities with an appropriate risk profile effectively and for the long term. The bank's total risk situation is subject to comprehensive analysis using monthly risk reports to the Executive Board, and corrective action is taken if necessary. The Board of Supervisory Directors regularly receives detailed information on the bank's risk situation.

Compliance

Compliance with regulatory requirements and voluntary performance standards is part of the corporate culture of KfW. The compliance organisation of KfW includes, in particular, systems for data protection as well as for the prevention of conflicts of interest, money laundering, terrorism financing and other criminal activities. There are therefore binding rules and procedures that influence the day-to-day implementation of values and the corporate culture; these are continually updated to reflect the latest legal and regulatory conditions as well as market requirements. Regular training sessions on compliance are held for KfW employees. E-learning programmes are also available in addition to the classroom seminars.

Accounting and Auditing

As the supervisory authority, the Federal Ministry of Finance in consultation with the Bundesrechnungshof (Federal Audit Office) appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for financial year 2010 on 19 April 2010. The appointment was based on the proposal made by the Board of Supervisory Directors on 25 March 2010. The Audit Committee prepared this recommendation and determined the priorities of the audit with KPMG. The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any potential grounds for bias or disqualification discovered during the audit that were not immediately rectified. It was furthermore agreed that the auditor would immediately inform the Audit Committee Chairman about any qualifying remarks or potential misstatements in the Declaration of Compliance with the PCGC. A declaration of auditor independence was obtained.

Efficiency Audit of the Board of Supervisory Directors

The Board of Supervisory Directors reviews the efficiency of its activities on a regular basis. A self-assessment of the Board of Supervisory Directors was conducted for 2010 using a structured questionnaire. More than two thirds of the members participated in the efficiency audit. The results of the survey showed that the members of the Board of Supervisory Directors rated the work and efficiency of their body on average between satisfactory and good, while the average rating of the work and efficiency of the committees was good. The Board of Supervisory Directors discussed the results of the self-assessment in its meeting on 6 April 2011.

Compensation Report

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

Overview of total compensation to members of the Executive Board and Board of Supervisory Directors

	2010	2009	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Executive Board	3,346	2,658	688
Former members of the Executive Board and their surviving dependents	4,026	3,619	407
Members of the Board of Supervisory Directors	176	160	16
Total	7,548	6,437	1,111

Compensation to the Executive Board

The compensation system for the KfW Executive Board is aimed at appropriately compensating members of the Executive Board for their duties and responsibilities. Executive Board contracts are drawn up based on the 1992 version of the policy for hiring executive board members at credit institutions of the Federal Government. The individual contracts contain adjustments.

Executive Board members that were appointed to the Executive Board prior to June 2009 currently receive annual salaries paid in twelve equal payments. They also receive a fixed end-of-year bonus paid annually upon approval of the annual financial statements by the Board of Supervisory Directors. Executive Board members who have been appointed or reappointed since June 2009 receive the fixed end-of-year bonus paid out as part of their monthly salaries.

Compensation of the Chief Executive Officer is an exception. He receives a variable end-of-year bonus of at least EUR 160,000 in addition to his fixed annual salary. This minimum bonus payment does not apply if KfW net income for a financial year is insufficient to ensure allocation to the statutory reserves.

The Executive Committee discusses the Executive Board compensation system including contract components in detail and regularly reviews it. The Board of Supervisory Directors resolves upon the basic structure of the Executive Board compensation system as proposed by the Executive Committee. Appropriateness of compensation was most recently reviewed in December 2010.

The following table shows total compensation, broken down into fixed and, where applicable, variable components and other forms of compensation, as well as allocations to pension provisions for the individual Executive Board members.

Other compensation largely comprises contractually agreed fringe benefits. Executive Board members are entitled to a company car with driver services for business and personal use. Executive Board members reimburse KfW for using a company car with a driver for private purposes in accordance with applicable tax regulations. They are reimbursed for the costs of maintaining a secondary residence for business reasons under tax regulations. Based on a personal security scheme, costs for security measures at Executive Board members' residences are covered to an appropriate extent and were therefore first reported in 2010 under Other compensation.

Annual compensation to the Executive Board and allocations to pension provisions in 2010

	Salary	Variable compensation	Other compensation	Total	Allocation to pension provisions
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Dr Ulrich Schröder (Chief Executive Officer)	660.0	160.0	177.2	997.2	516.4
Dr Günther Bräunig	466.6	0.0	26.0	492.6	269.2
Dr Norbert Kloppenburg	466.6	0.0	52.0	518.7	270.2
Bernd Loewen	480.0	0.0	283.6	763.6	181.4
Dr Axel Nawrath	466.0	0.0	107.6	573.6	412.9
Total	2,539.2	160.0	646.5	3,345.8	1,650.1

Executive Board members are insured under a group accident insurance policy. Supplements are paid on health and long-term care insurance premiums. Executive Board members are covered by a directors and officers liability insurance policy, which insures them against the risks of financial loss associated with their actions in their capacity as Executive Board members and by a supplemental legal expenses insurance policy. These two policies are group insurance policies. The D&O policy protects against financial loss, which could arise from performance of duties as KfW Executive Board members. At present, there is no deductible. KfW Executive Board members acting in their management capacity are also protected by a special legal expenses group policy for employees covering criminal action brought against Board members.

Other compensation also includes compensation for exercising group mandates.

As all other executives, Executive Board members may also opt to participate in the deferred compensation programme – a supplemental company pension scheme financed via tax-free salary conversion.

Benefits in kind that cannot be granted tax-free are subject to taxation as non-cash benefits for Executive Board members.

As at the end of the year, there was one loan to a member of the Executive Board with an outstanding amount of EUR 81.4 thousand (previous year: EUR 87.5 thousand). The interest rate is between 3% p.a. and 4% p.a. No new loans were granted to Executive Board members in financial year 2010 nor will any more be granted in future.

Executive Board members are entitled to pension payments after retiring from KfW. Pension commitments for Executive Board members as well as their surviving dependents are based on the 1992 version of the policy for hiring executive board members at credit institutions of the Federal Government.

Pension payments to former Executive Board members or their surviving dependents were as follows in 2010:

Pension payments to former Executive Board members or their surviving dependents

	Number	EUR in thousands
Former members of the Executive Board	20	3,318
Surviving dependents	10	708
Total	30	4,026

Provisions in the amount of EUR 48,515 thousand had been set up at the end of the financial year for pension obligations to former members of the Executive Board and their surviving dependents (previous year: EUR 47,515 thousand). No loans were granted to former Executive Board members and their surviving dependents in financial year 2010.

Compensation to members of the Board of Supervisory Directors

The amount of compensation to members of the Board of Supervisory Directors is determined by the Supervisory Authority in accordance with Section 4 (5) of the KfW By-Laws. Prior to the amendment to the By-Laws effective 1 January 2011, the term "*Aufwandsentschädigung*" (expense allowance) was used. With the last revision in May 2010, compensation to members of the Federal Government who are members of the Board of Supervisory Directors pursuant to section 7 (1) no. 2 KfW Law was set at EUR 0.00 for the first time for financial year 2010. Moreover, compensation for the Chairman of the Board of KfW Supervisory Directors and his deputy was also set at EUR 0.00.

For the reporting year, compensation for other members of the Board of Supervisory Directors pursuant to section 7 (1) no. 3 – 6 KfW Law amounted to EUR 5 thousand p.a.; compensation for membership on the Executive, Credit or Audit Committees, was a standard amount of EUR 0.6 thousand p.a. for each member. Committee chairs received no special compensation.

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

A daily allowance (EUR 0.2 thousand per meeting day) is paid and travel expenses and applicable VAT are reimbursed upon request.

The following table provides details on the compensation paid to the Board of Supervisory Directors in financial year 2010; stated amounts are net amounts in EUR thousands.

Compensation to members of the Board of Supervisory Directors for financial year 2010

No.	Name	Dates of membership in 2010	Board of Supervisory Directors membership	Committee membership	Daily allowance ¹⁾	Total
			EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1.	Rainer Brüderle	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
2.	Dr Wolfgang Schäuble	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
3.	Ilse Aigner	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
4.	Anton F. Börner ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.2	5.9
5.	Christian Brand ³⁾	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
6.	Frank Bsirske ³⁾	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
7.	Prof. Dr Hans Heinrich Driftmann ³⁾	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
8.	Prof. Dr Kurt Faltlhauser ^{2), 3)}	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
9.	Axel Gedaschko ^{2), 3)}	1 Jan.–31 Oct.	4.2	0.4	0.0	4.7
10.	Heinrich Haasis ³⁾	1 Jan.–31 Dec.	5.1	1.8	0.6	7.6
11.	Hubertus Heil ³⁾	1 Jan.–31 Dec.	5.1	0.5	0.2	5.8
12.	Gerhard P. Hofmann ³⁾	1 Jan.–31 Dec.	5.1	1.2	0.8	7.1
13.	Bartholomäus Kalb ³⁾	1 Jan.–31 Dec.	5.1	1.2	0.4	6.7
14.	Roland Koch ^{2), 3)}	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
15.	Dr h. c. Jürgen Koppelin ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
16.	Monika Kuban ³⁾	1 Jan.–31 Dec.	5.1	0.0	0.2	5.3
17.	Karoline Linnert ^{2), 3)}	1 Jan.–31 Dec.	5.1	0.5	0.4	6.1
18.	Dr Helmut Linsen ^{2), 3)}	1 Jan.–24 Aug.	3.4	0.7	0.0	4.1
19.	Dr Gesine Lötzsche ³⁾	1 Jan.–31 Dec.	5.1	0.5	0.8	6.4
20.	Claus Matecki ³⁾	1 Jan.–31 Dec.	5.1	0.0	0.2	5.3
21.	Dr Michael Meister ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
22.	Franz-Josef Möllenberg ³⁾	1 Jan.–31 Dec.	5.1	1.2	0.6	6.9
23.	Hartmut Möllring ^{2), 3)}	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
24.	Dirk Niebel	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
25.	Dr Peter Ramsauer	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
26.	Dr Norbert Röttgen	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
27.	Alexander Rychter ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
28.	Christine Scheel ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
29.	Hanns-Eberhard Schleyer ³⁾	1 Jan.–31 Dec.	5.1	1.2	0.6	6.9
30.	Andreas Schmitz ³⁾	1 Jan.–31 Dec.	5.1	1.8	0.2	7.2
31.	Dr Werner Schnappauf ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
32.	Carsten Schneider ³⁾	1 Jan.–31 Dec.	5.1	0.5	0.8	6.4
33.	Michael Sommer ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
34.	Gerd Sonnleitner ³⁾	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
35.	Marion Walsmann ^{2), 3)}	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
36.	Dr Norbert Walter-Borjans ^{2), 3)}	15 Oct.–31 Dec.	1.3	0.0	0.0	1.3
37.	Dr Guido Westerwelle	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
Total			147.0⁴⁾	19.1⁴⁾	10.0	176.1⁴⁾

¹⁾ Reported for the first time in 2010 under Compensation paid to the Board of Supervisory Directors

²⁾ Amount determined by state law

³⁾ Amount not called as at 31 December 2010

⁴⁾ Including amounts not yet called

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

In the reporting year, members of the Board of Supervisory Directors received no compensation for personal services provided.

No loans were granted to members of the Board of Supervisory Directors in the reporting year.

Members of the Board of Supervisory Directors are covered by a directors and officers liability insurance policy, which insures them against the risks

of financial loss associated with their actions in their capacity as Supervisory Directors, and by a supplemental legal expenses insurance policy. These two policies are group insurance policies. The D&O policy protects against financial loss, which could arise from performance of duties as KfW Supervisory Directors. There is no deductible. KfW Supervisory Directors acting in that capacity are also protected by a special legal expenses group policy for employees covering criminal action brought against Supervisory Directors and by a group accident insurance policy.

Frankfurt am Main, 6 April 2011

The Executive Board

The Board of Supervisory Directors

Executive Board

Dr Ulrich Schröder (Chief Executive Officer) | Dr Günther Bräunig | Dr Norbert Kloppenburg | Bernd Loewen | Dr Axel Nawrath

Directors

Dr Stefan Breuer	Dr Volker Groß	Klaus Neumann	Joachim Rastert
Dr Frank Czichowski	Klaus Klüber	Werner Oerter	Wolfgang Roßmeißl
Dr Lutz-Christian Funke	Doris Köhn	Uwe Ohls	Dr Jürgen Schneider
Helmut Gauges	Cherifa Larabi	Christiane Orłowski	Klaus Weirich
Werner Genter	Dr Matthias Leclerc	Dr Stefan Peiß	Dr Christian Zacherl

Management Board of KfW IPEX-Bank GmbH

Michael Ebert | Christiane Laibach | Christian Murach | Markus Scheer | Harald Zenke (Speaker from 1 January 2011)

KfW IPEX-Bank is responsible for the business areas of domestic project and corporate finance and international project and export finance. Since the beginning of 2008, it has been a legally independent subsidiary of KfW Bankengruppe which is subject to the German Banking Act (*Kreditwesengesetz – KWG*) and banking supervisory regulations.

Management Board of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Dr Michael Bornmann | Philipp Kreutz | Bruno Wenn (Chairman)

DEG was founded in 1962 and has been a wholly-owned subsidiary of KfW Bankengruppe since 2001. DEG is one of the largest European development finance institutions for long-term project and corporate financing. It has been financing and structuring investments by private companies in developing and transition countries for nearly 50 years.

MEMBERS AND TASKS OF THE BOARD OF SUPERVISORY DIRECTORS

The Board of Supervisory Directors supervises the conduct of KfW's business activities and the management of its assets. It approves, among others, the annual financial statements. The Board of Supervisory Directors consists of 37 members. In the year under review, the Chairman was the Federal Minister of Economics and Technology, and the Deputy Chairman was the Federal Minister of Finance.

Dr Wolfgang Schäuble

Federal Minister of Finance
Chairman
(from 1 January 2011)
Deputy Chairman
(from 1 January 2010 until 31 December 2010)

Rainer Brüderle

Federal Minister of Economics and Technology
Deputy Chairman
(from 1 January 2011)
Chairman
(from 1 January 2010 until 31 December 2010)

Ilse Aigner

Federal Minister of Food,
Agriculture and Consumer Protection

Norbert Barthle

Member of the German Bundestag
Member appointed by the German Bundestag
(from 1 January 2011)

Jan Bettink

President of the Verband
Deutscher Pfandbriefbanken
Representative of the mortgage banks
(from 1 January 2011)

Anton F. Börner

President of the Federation
of German Wholesale and Foreign Trade
Representative of trade

Volker Bouffier

Minister President of the State of Hesse
Member appointed by the German Bundesrat
(from 1 January 2011)

Christian Brand

Chairman of the Board of Managing Directors
L-Bank, Landeskreditbank Baden-Württemberg
Representative of the mortgage banks
(until 31 December 2010)

Frank Bsirske

Chairman of ver.di – Vereinigte
Dienstleistungsgewerkschaft
Representative of the trade unions

Prof. Dr Hans Heinrich Driftmann

President of the Association of German
Chambers of Industry and Commerce (DIHK)
Representative of industry

Ingeborg Esser

Managing Director
Federal Association of German Housing and
Real Estate Enterprises (GdW)
Representative of the housing industry
(from 1 January 2011)

Georg Fahrenschon

Minister of Finance of the Free State of Bavaria
Member appointed by the German Bundesrat
(from 1 January 2011)

Prof. Dr Kurt Faltlhauser

Former Minister of Finance of the
Free State of Bavaria
Member appointed by the German Bundesrat
(until 31 December 2010)

Axel Gedaschko

Former Senator
Office of Economic Affairs and Employment
Member appointed by the German Bundesrat
(until 31 October 2010)

Heinrich Haasis

President of the Deutscher Sparkassen-
und Giroverband
Representative of the savings banks

Hubertus Heil

Member of the German Bundestag
Member appointed by the German Bundestag

Gerhard P. Hofmann

Member of the Board of Managing Directors of the
Bundesverband der Deutschen
Volksbanken und Raiffeisenbanken e. V. (BVR)
Representative of the cooperative banks

Bartholomäus Kalb

Member of the German Bundestag
Member appointed by the German Bundestag

Roland Koch

Former Minister President of the State of Hesse
Member appointed by the German Bundesrat
(until 31 December 2010)

Dr h. c. Jürgen Koppelin

Member of the German Bundestag
Member appointed by the German Bundestag

Monika Kuban

Permanent deputy of the Managing Director
of the Deutscher Städtetag
Representative of the municipalities

Karoline Linnert

Mayor
Senator for Finance
of the Free Hanseatic City of Bremen
Member appointed by the German Bundesrat

Dr Helmut Linssen

Former Minister of Finance
of the State of North Rhine-Westphalia
Member appointed by the German Bundesrat
(until 24 August 2010)

Dr Gesine Lötzsch

Member of the German Bundestag
Member appointed by the German Bundestag

Stefan Mappus

Minister President
of the State of Baden-Württemberg
Member appointed by the German Bundesrat
(from 1 January 2011)

Claus Matecki

Member of the Executive Board of the
Confederation of German Trade Unions (DGB)
Representative of the trade unions

Dr Michael Meister

Member of the German Bundestag
Member appointed by the German Bundestag

Franz-Josef Möllenberg

Chairman of the Trade Union
Nahrung-Genuss-Gaststätten
Representative of the trade unions

Hartmut Möllring

Minister of Finance of the State of Lower Saxony
Member appointed by the German Bundesrat
(until 31 December 2010)

Dirk Niebel

Federal Minister for Economic Cooperation and
Development

Dr Peter Ramsauer

Federal Minister for Transport, Building and Urban
Affairs

Dr Norbert Röttgen

Federal Minister for the Environment,
Nature Conservation and Nuclear Safety

Alexander Rychter

Director of the Verband der Wohnungs- und
Immobilienwirtschaft Rheinland-Westfalen e.V.
Representative of the housing industry
(until 31 December 2010)

Christine Scheel

Member of the German Bundestag
Member appointed by the German Bundestag
(until 31 December 2010)

Hanns-Eberhard Schleyer

Former Secretary General of the
Zentralverband des Deutschen Handwerks
Representative of the skilled crafts

Andreas Schmitz

President of the Bundesverband
deutscher Banken e.V.
Chairman of the Management Board
of HSBC Trinkaus & Burkhardt AG
Representative of the commercial banks

Dr Werner Schnappauf

Director General of the Executive Board of the
Bundesverband der Deutschen Industrie e.V. (BDI)
Representative of industry

Carsten Schneider

Member of the German Bundestag
Member appointed by the German Bundestag

Michael Sommer

Chairman of the Confederation
of German Trade Unions
Representative of the trade unions

Gerd Sonnleitner

President of the Deutscher Bauernverband e.V.
Representative of agriculture

Marion Walsmann

Minister for Federal and European Affairs and
Head of the State Chancellery
of the Free State of Thuringia
Member appointed by the German Bundesrat

Dr Norbert Walter-Borjans

Minister of Finance
of the State of North Rhine-Westphalia
Member appointed by the German Bundesrat
(from 15 October 2010)

Dr Guido Westerwelle

Federal Minister for Foreign Affairs

Images

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GDF SUEZ Energy, Dubai | pages 62/63

Siemens AG, Erlangen | page 63

Scandlines AG, Fehmarn | page 65 (top of page)

Ingo Arndt, Bad Bentheim | page 65 (bottom of page)

Cinpharm, Kamerun | page 76/77

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Getty Images/BreBa | page 39

Getty Images/Artifacts Images | page 55

Imprint

Published by:

KfW Bankengruppe
Communication Department
Palmengartenstrasse 5–9, 60325 Frankfurt am Main
Phone +49 69 7431 0, Fax +49 69 7431 2944
infocenter@kfw.de, www.kfw.de

Design and realisation:

MEHR Werbe- und Projektagentur, Düsseldorf

Lithography:

Laser-Litho4, Düsseldorf

Printed by:

Mareis Druck, Weißenhorn

Printed on

Heaven 42, Igepa group
PlanoPlus, Papyrus



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