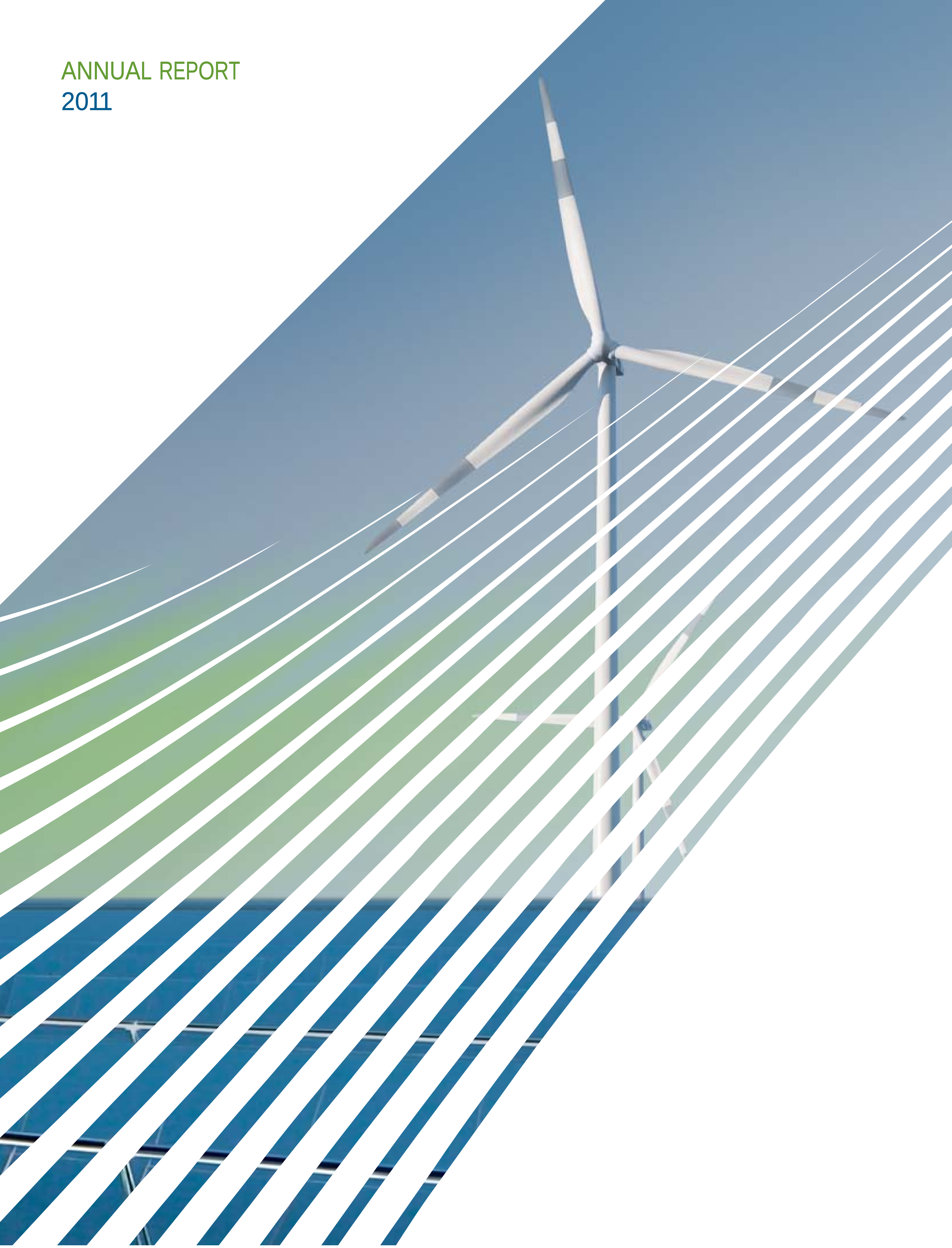
ANNUAL REPORT
2011



Bank aus Verantwortung

Challenges of our time

- Ensuring competitiveness and a fair global division of labour
- Coping with demographic change and fighting poverty worldwide
- Combating climate change and the continuing destruction of our natural environment

The great challenges of our time require enterprises and banks to change their way of thinking.

The demands on KfW's promotional capacity and its efficiency are also increasing. At the same time, the needs and behaviour of clients are changing.

KfW is confronting these changes.

Modernisation of KfW

STRATEGIC FOCUS
Management of the quality and volume of promotional support with the aim of optimally implementing our sustainable promotional mandate ("qualitative growth")

PROFESSIONALISATION
Further development of the risk management, controlling and compliance processes for the management of KfW

EFFICIENCY
Attaining efficient processes, accelerated processing times, optimal client service

CLIENT ORIENTATION
Orientation of promotional offers and services to clients' needs – improvement of client access and product transparency

PERCEPTION OF KFW
Strengthening the brand profile with a brand core and a promise of performance geared towards improving the perception of KfW by the public as a modern and sustainable promotional bank, renewal of our image

Responsible Banking

KEY FIGURES OF KFW BANKENGRUPPE

Business activities of KfW Bankengruppe	2009	2010	2011
	EUR in billions	EUR in billions	EUR in billions
Core business of KfW Group (consolidated)[1)]	63.9	81.4	70.4
KfW Mittelstandsbank	23.9	28.6	22.4
KfW Special Programme[2)]	*7.2*	*6.2*	*0.7*
KfW Privatkundenbank	16.1	20.0	16.7
KfW Kommunalbank	9.4	15.8	11.8
Capital market-related products and asset securitisation	1.5	2.1	1.1
Export and project finance (KfW IPEX-Bank)	8.9	9.3	13.4
Promotional business	*4.3*	*3.9*	*6.4*
Market business	*4.6*	*5.4*	*7.0*
Promotion of developing and transition countries	4.5	5.7	5.8
KfW Entwicklungsbank	*3.5*	*4.5*	*4.5*
DEG	*1.0*	*1.2*	*1.2*
Overall commitment volume of KfW Group (consolidated)[1)]	63.9	103.7	70.4

Differences in the totals may occur due to rounding.
[1)] Adjustment for commitments made in export and project financing refinanced through KfW programme loans (2011: EUR 847 million, 2010: EUR 231 million)
[2)] Including cancellations and waivers in the KfW Special Programme in the amount of EUR 165 million in 2011

Key income statement figures	2011	2010
	EUR in millions	EUR in millions
Net interest income	2,399	2,752
Interest rate reductions	*–557*	*–558*
Net commission income	226	273
Administrative expense	757	722
Operating result before valuation	1,869	2,302
Risk provisions for lending business	185	424
Net gains/losses from hedge accounting and other financial instruments at fair value through profit or loss	260	–13
Net gains/losses from securities and from investments accounted for using the equity method	–227	–1
Operating result after valuation	2,086	2,712
Net other operating income	11	–27
Profit/loss from operating activities	2,098	2,685
Taxes on income	30	54
Consolidated profit	2,068	2,631
Consolidated profit before IFRS effects from hedging	1,900	3,061
Change in revaluation reserves recognised directly in equity	–5	33
Cost/income ratio before interest rate reductions[1)]	23.8 %	20.2 %

Key balance sheet figures	2011	2010
	EUR in billions	EUR in billions
Total assets	494.8	441.8
Volume of lending	436.7	426.7
Contingent liabilities	6.3	7.0
Irrevocable loan commitments	55.7	65.3
Assets held in trust	16.7	16.6
Volume of business	573.6	530.6
Equity	17.8	15.8
Equity ratio	3.6 %	3.6 %

Key regulatory figures	2011	2010
	EUR in billions	EUR in billions
Risk position	113.3	124.1
Tier 1 capital	17.4	15.3
Total regulatory capital	20.2	18.3
Tier 1 ratio	15.4 %	12.4 %
Total capital ratio	17.8 %	14.7 %

Employees of KfW Bankengruppe	2011	2010
	4,765	4,531

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

CONTENTS

ONE OF SOCIETY'S MOST IMPORTANT GOALS.

A SHARED TASK OF IMMENSE PROPORTIONS.

AS A RESPONSIBLE PROMOTIONAL BANK, KFW IS TAKING ON THE CHALLENGE.

ARE YOU?

EFFICIENT ENERGY GENERATION

EFFICIENT ENERGY USE

WE PROMOTE THE
ENERGY TURNAROUND IN

MUNICIPALITIES

NATIONAL

ENERGY TURNAROUND

WE PROMOTE THE
ENERGY TURNAROUND IN

ENTERPRISES

INTERNATIONAL

RENEWABLE ENERGY DEVELOPMENT

WE PROMOTE THE
ENERGY TURNAROUND IN

PRIVATE HOUSEHOLDS

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

Tell me, Dr Schröder ... everyone's talking about the energy turnaround, when is it going to start?

It already started years ago, not just when the political decision was taken that the last German nuclear power stations will be taken off the grid in 2022 and replaced by renewable energies. As the promotional bank of the German Federal Government and the federal states, KfW Bankengruppe has long supported the areas needed for a successful transition – the development of renewable energy, efficient energy use and efficient energy generation.

KfW has immense expertise in these areas. We have been providing targeted support for investment in energy efficiency and renewable energy since as early as 1990. Today we offer programmes for the efficient use of energy in companies, for instance, or to support energy saving measures in private residential buildings or public institutions.

KfW is one of the world's largest financiers of renewable energy in developing and transition countries. All in all, environmental and climate protection now represents a third of KfW's promotional volume.

So our entire promotional offering in this area is already ideally suited to fully support the energy turnaround that is now underway. New technologies, such as offshore wind energy, or new business models in the smart grid often entail entrepreneurial risks that commercial banks are not prepared to take on their own.

As an experienced promotional bank, KfW can offer solutions in this situation and thus help pave the way for the breakthrough of new ideas.

Ensuring competitiveness and a fair global division of labour, coping with demographic change and reducing poverty worldwide, the battle against climate change and the advancing destruction of our natural environment – the challenges we face are huge. This is why KfW is developing suitable products together with policymakers, such as the loan programme for offshore wind energy and our loans for energy-efficient urban street lighting. We are also further expanding our support for high-tech start-ups that develop innovative products, processes and applications.

As you can see – we are meeting today's challenges and taking responsibility.

Dr Ulrich Schröder
Chief Executive Officer

The energy turnaround – the start of a new era

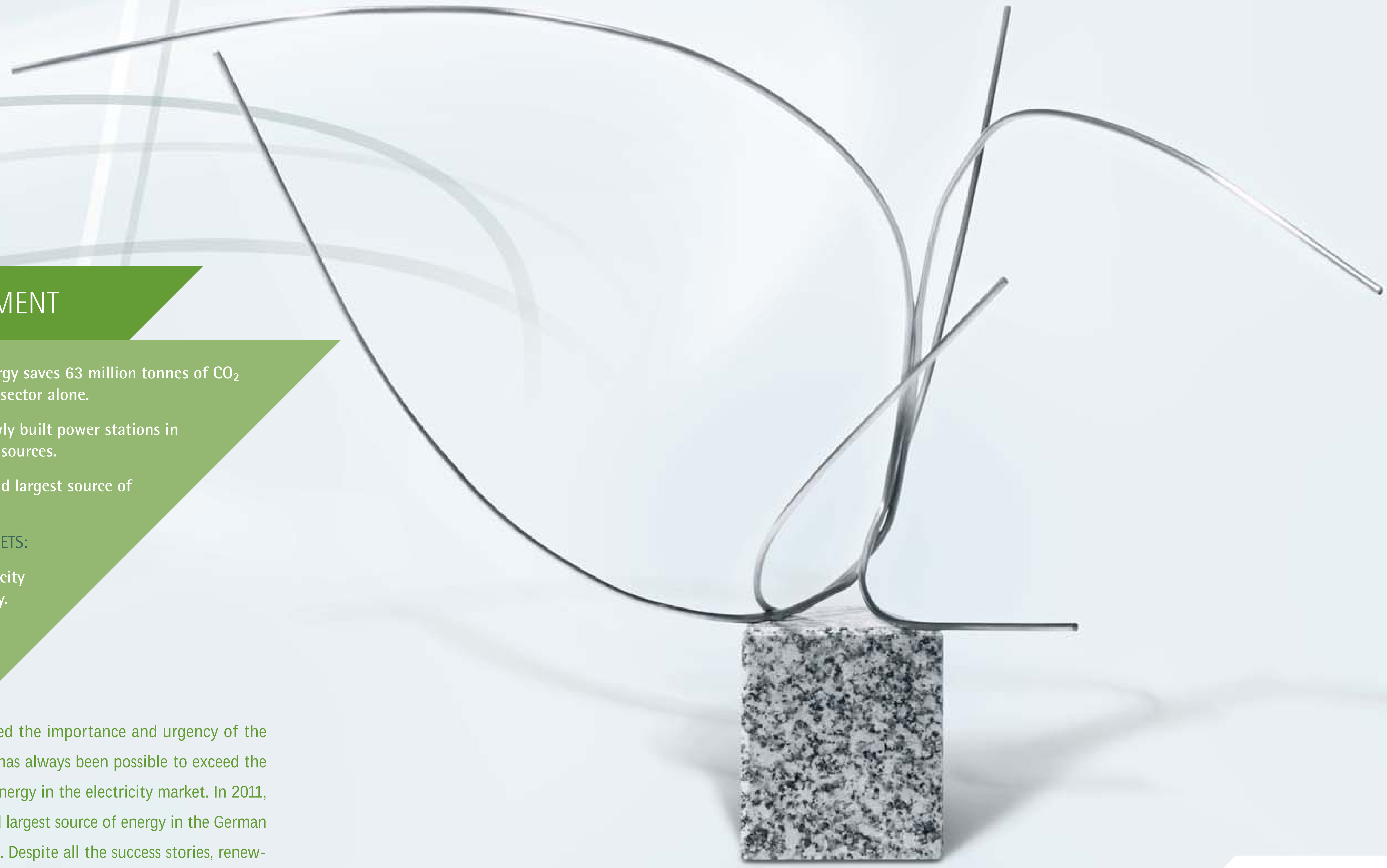
A step back in time. A young physicist discovers that time and space are inextricably linked – probably the most famous physics equation in the world, $E = mc^2$, is born. And its father, Albert Einstein, revolutionises science. But it is another half a century before the artistic definition of time and space is presented to the world. And once again, everyone is astounded by a young man. A man who works with pure energy – using energy as his material to create works that transcend space and convey a palpable sense of movement.

Our man of the moment: Norbert Kricke. His electrifying powers will accompany us on the journey into the future of the energy turnaround and the start of a new era. The Düsseldorf-born artist (1922–1984) was a professor of sculpture, and as the director of the Art Academy of Düsseldorf created unmistakable accents of timeless presence and seminal sustainability. We think that Norbert Kricke encapsulates it better than anyone else: panta rhei – everything flows. And we are right in the middle, in the flow of energy and time, in KfW's 2011 Annual Report.

"Perhaps art is just the world talking to itself, through the medium of artists."

Norbert Kricke, artist

The energy turnaround on the web:
Kricke's inexhaustible potential lives on. Experience the interpretation of a Kricke sculpture on film at:
www.kfw.de/energiewende



RENEWABLE ENERGY DEVELOPMENT

2008: Renewable energy saves 63 million tonnes of CO_2 a year in the electricity sector alone.

2010: Around half of all newly built power stations in Germany use renewable energy sources.

2011: Renewable energy is the second largest source of energy on the electricity market.

THE GERMAN GOVERNMENT'S TARGETS:

2020: Thirty-five per cent of the electricity supply will be covered by renewable energy.

2050: Eighty per cent of our electricity will come from renewable energy sources.

The disaster in Fukushima increased the importance and urgency of the energy turnaround. In the past, it has always been possible to exceed the forecast proportion of renewable energy in the electricity market. In 2011, renewables were already the second largest source of energy in the German electricity market after brown coal. Despite all the success stories, renewable energy development in the electricity and heating market will also remain one of the key challenges in the future. A successful energy turnaround will potentially generate major economic benefits both nationally and internationally. More than 360,000 people in Germany already owe their jobs to renewable energy.

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

Around 80 % of the wind energy plants installed in Germany were co-financed by KfW. The new EUR 5 billion KfW loan programme for the offshore sector will make a substantial improvement on this. Due to the new and complex nature of the technology and the fact that little is known about the risks as yet, other banks are still being very cautious, which means that KfW is assuming an important pioneering role here. Between 20,000 and 25,000 megawatts of electricity are expected to be generated by 2030 – more than in the 10 largest nuclear power stations in Germany put together. But KfW also promotes renewable energy outside Germany, for example in North Africa. Large-scale solar power plants and local solutions are both emerging here. The electricity they provide will generate important economic impetus for the region and, in the long term, will also contribute to Europe's energy security.

KfW leads the way in offshore projects.

The commitment to renewable energy in Germany is already paying off. Financing from KfW safeguarded or created 52,000 jobs in this area in 2010 alone. <

Renewable energy development. We promote it.

Renewable energy development is effectively the core of the energy turnaround. The range of KfW Bankengruppe's activities in this area is correspondingly wide.

- Offshore funding: A EUR 5 billion programme to promote offshore wind farms is being launched in 2012.
- Onshore funding: The credit limit for wind turbines was raised from EUR 10 million to EUR 25 million in 2012.
- Together with the World Bank, KfW is the most important promoter of renewable energies worldwide.
- Forty-six per cent of the newly added electrical output in Germany was funded through KfW.
- Four and a half tonnes less CO_2 emissions were produced in 2010. The reason: KfW's promotion of renewable energies.
- In 2011, funding was increased to EUR 0.5 billion in the Renewable Energies – Premium Programme.
- In 2012, the first privately developed hydroelectric power plant in Uganda, which was co-financed by KfW Entwicklungsbank and DEG, went on stream. The first step towards the energy turnaround and an improved electricity supply.

"THE IDEA OF SIMPLY EXTRACTING ENERGY FROM THE AIR HAS ALWAYS FASCINATED ME. WHEN I FELT THE TIME WAS RIGHT, MY BROTHER AND I LAUNCHED ONE OF THE FIRST WIND FARMS HERE IN BADEN-WÜRTTEMBERG. I WOULD NEVER HAVE THOUGHT THAT THIS PROJECT WOULD ONE DAY TURN INTO AN INTERNATIONAL COMPANY. FOR ME IT'S A DREAM COME TRUE – AND A DECISIVE STEP TOWARDS A POST FOSSIL-FUEL SOCIETY."

Frank Hummel,
Managing Director of SoWiTec Group

EFFICIENT ENERGY USE

2010: 35 % of final energy in Germany is consumed in buildings.

2020: Standards for new buildings comply with the European ultra-low energy building standard, electricity consumption is reduced by 10 %.

2050: The European ultra-low energy building standard is also largely achieved in existing properties.

The ability to use the available energy as efficiently as possible plays a key role in the energy turnaround. Experts therefore describe the increase in energy efficiency as the real transitional technology – and the potential is enormous. According to a study by the German Industry Initiative for Energy Efficiency, 8.3 billion kilowatt hours, or the annual output of ten nuclear power stations, could be saved in the electricity sector by 2020. Another 155 billion kilowatt hours can also be saved in the area of heating. A total of 24 million homes in Germany are deemed in need of energy rehabilitation. But municipalities, commerce and industry also have great potential to make savings, which are just waiting to be realised. >

ENERGIEWENDE.
WIR FÖRDERN DAS.
KfW

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

Energy efficiency affects all areas of our society – and the range of KfW promotional programmes for increasing efficiency is correspondingly wide. In the past five years alone, KfW has provided EUR 31.4 billion in funding for rehabilitating residential properties, financing the construction or rehabilitation of 2.5 million homes. This means annual carbon reductions of around 5 million tonnes. Funding for the energy-efficient rehabilitation of buildings will also be continued at a high level in 2012 to 2014 with support from the Energy and Climate Fund.

KfW promotional programmes enable enormous CO_2 savings.

KfW also helps municipalities increase their energy efficiency. For example, there are programmes for energy-efficient urban lighting, the energy-efficient rehabilitation of public buildings and the modernisation of entire districts.

Companies can also obtain support for efficiency measures. At the beginning of 2012, the maximum loan amount was raised to EUR 25 million.

With the help of the Energy-Efficient Refurbishment Programme, existing residential properties can be modernised and made energy efficient. Here, energy efficiency measures are just as much a focus as renewable energy use. KfW demonstrates what is possible in its own offices; within just a few years we succeeded in reducing our carbon emissions by 50 %. We did so by increasing efficiency, among other means. <

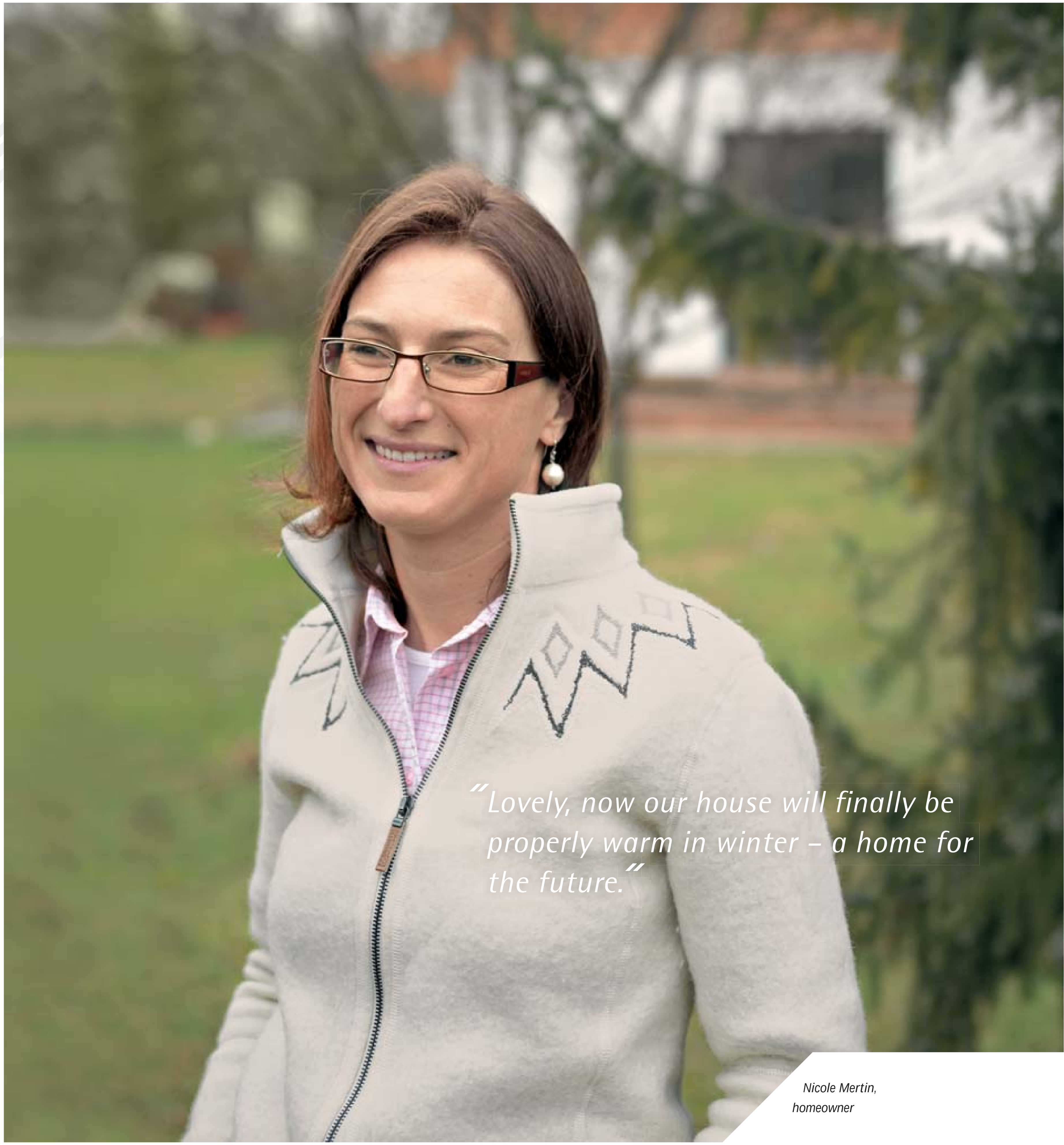
KfW's West Arcade has been awarded a prize for being a particularly energy-efficient tall building.

Efficient energy use. We promote it.

The most climate-neutral and environmentally-friendly energy is the energy you don't need in the first place. Being energy efficient and saving energy are therefore still our greatest sources of energy.

- The Energy-Efficient Refurbishment and Energy-Efficient Construction programmes promote high quality, energy-efficient modernisations and new builds. Here it is a case of the better the energy efficiency, the more attractive the financing from KfW.
- Historic housing can be converted to make it energy efficient. KfW pays up to 65 % of the costs for the development of the concept and the refurbishment manager, and also supports implementation.
- Some 262,000 homes underwent energy efficient modernisation or were newly built as KfW Efficiency Houses in 2011. This measure alone reduced carbon emissions by 567,000 million tonnes a year.

"WE WANTED TO NOT JUST CREATE VALUE, BUT TO RETAIN EXISTING VALUE. OUR GOAL WAS TO REHABILITATE AN OLD HOUSE THAT HAD HISTORY AND CHARM AND MAKE IT ENERGY EFFICIENT, THUS BRINGING IT UP TO DATE. NATURAL MATERIALS, LOW-MAINTENANCE LARCH CLADDING AND WOOD FIBRE INSULATION GIVE A WONDERFULLY WARM FEELING TO THE HOME."



"Lovely, now our house will finally be properly warm in winter – a home for the future."

Nicole Mertin, homeowner

EFFICIENT ENERGY GENERATION

2011: The contribution made by nuclear energy to covering total energy needs fell by 23 %.

2020: Carbon emissions in Germany are reduced by 40 %.

2050: Primary energy requirements are halved.

2050: Carbon emissions are reduced by 80 %.

Fossil fuels all have one thing in common – they are finite. The scarcer they become, the more unpredictable their prices. At the same time, the CO_2 created by burning them accelerates climate change. It is therefore our responsibility as a society to reduce our use of fossil fuels as soon as possible and to use them as efficiently as possible.

Modern coal-fired power stations already achieve efficiencies of up to 43 %, which is 6 percentage points higher than old power plants. Gas and steam power plants today in fact achieve efficiencies of over 60 %; with combined heat and power, this will increase to up to 90 %.

ENERGIEWENDE. WIR FÖRDERN DAS. KfW

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

KfW operates in a wide range of areas in efficient energy generation – from efficient energy generation for industry/commerce to construction or optimisation of gas and coal-fired power stations worldwide.
KfW IPEX Bank is currently financing one of the world's largest gas and steam power plants, in Saudi Arabia, providing just under EUR 100 million. The plant includes high-efficiency technology from Siemens. This project alone will save several million tonnes of CO_2 a year.
Through its Energy Turnaround Financing Initiative, KfW promotes innovations in efficient energy generating technologies. The initiative not only provides funding for investments in more efficient energy generation, such as plants using combined heat and power, but also to cover research costs for achieving innovation in this area. <

KfW IPEX Bank is financing one of the world's largest gas and steam power plants.

Efficient energy generation. We promote it.

KfW operates in a wide range of areas in efficient energy generation. In addition to the measures already launched, funding has been increased significantly in some areas.

- KfW promotes municipal energy supply through reduced-interest loans for efficient power stations, storage facilities and distribution grids.
- KfW provides venture capital to start-ups in the area of efficient energy generation and energy efficiency and is thus one of the largest providers of venture capital in Germany.
- KfW is one of the world's largest finance providers in the energy sector, and demands high standards of efficiency and environmental protection when providing funding.

"THE BIOMASS PLANT WITH COMBINED HEAT AND POWER HAS BEEN A KIND OF DECLARATION OF INDEPENDENCE FOR US HERE IN THE REGION. WE HAVE ENOUGH WOOD HERE. WE SUPPLY 230 LOCAL CUSTOMERS THROUGH DISTRICT HEATING PIPES. ONE ADVANTAGE WHICH IMMEDIATELY CONVINCED A LOT OF PEOPLE IS THAT SPENDING ON ELECTRICITY AND HEATING NOW STAYS WITHIN THE REGION."

Arnold Fellinger, Managing Director of Bioenergie Berchtesgadener Land GmbH

Dear Readers,

2011 was a successful year for KfW. The Group's overall promotional business volume reached EUR 70.4 billion, more than the originally expected EUR 66 billion. After EUR 63.9 billion in 2009 and an augmented business volume of EUR 81.4 billion as a result of the economic stimulus programmes in 2010, KfW's promotional business is now returning to a path of moderate and long-term qualitative growth. In 2011 KfW committed EUR 50.9 billion to enterprises, municipalities and retail clients in Germany (2010: EUR 64.4 billion). Its international business rose sharply to EUR 19.2 billion, an increase of 28 % over the EUR 15 billion committed in 2010.

Besides small and medium-sized businesses, environmental and climate protection were another main focus area. Here KfW committed EUR 22.8 billion, around 32 % of the overall promotional business volume. This means that in 2011 almost one out of every three euros of KfW's promotional funds went to climate and environmental protection. This share is to increase this year.

As we had announced, KfW reduced its promotional business volume again last year after the end of the crisis-induced, significantly augmented promotional measures of 2010. The promotional business volume of 2011 has reverted to the moderate path of growth in pre-crisis years. This also demonstrates that KfW takes its subsidiary role seriously and pulls back once overall conditions permit.

After all, growth alone is not a business objective for us. Our aim is to achieve long-term moderate and qualitative growth. In this context we therefore classify all products and programmes on the basis of the criteria of sustainability, subsidiarity and client benefit. Products and programmes of higher promotional quality have been and are being expanded, while products and programmes of lesser promotional quality are being reduced. Along with other modernisation measures, we are thus making the necessary changes to sustainably fulfil our promotional mandate.

Results of the activities of the individual business areas

The promotional business volume of the business area KfW Mittelstandsbank was EUR 22.4 billion. The 21.7 % decline against the year 2010 is essentially due to the phase-out of the KfW Special Programme on 31 December 2010. The KfW Special Programme secured access to loans for enterprises in the years 2009 and 2010. Nevertheless, in 2011 the volume of commitments of the business area KfW Mittelstandsbank exceeded the expected target volume of EUR 18.8 billion, which primarily reflected the economic growth achieved in 2011 and the associated business investment activity. Commitments in the priority area of Innovations almost matched the previous year's level at EUR 2.2 billion (EUR 2.1 billion), as did the priority area of Environmental Protection, with a volume of EUR 10.8 billion (EUR 11.1 billion). A split trend became apparent here. On the one hand, demand for loans for photovoltaic solar systems from the "KfW Renewable Energies Programme – Standard" declined as a result of the reduced feed-in tariff. On the other hand, commitments under the "Environmental and Energy Efficiency Programme" with a volume of EUR 3.2 billion were more than double the previous year's level.

In the business area KfW Privatkundenbank the overall volume of commitments reached EUR 16.7 billion, meeting the planned level. The drop in the volume of commitments against the EUR 20.0 billion of 2010 is primarily due to pull-forward effects from that year, in which the more stringent legal requirements were gradually applied under the financing programmes.

Demand also receded as a result of the decline in available federal budget funds for interest-rate reductions in 2011 and the discussion about possible tax benefits for energy-efficient refurbishment. Commitments for "Age-appropriate Conversion" developed very favourably, reaching a volume of EUR 0.4 billion. Commitments in the promotional focus of "Education and Social Development" totalled EUR 2.2 billion (2010: EUR 2.1 billion).

The business area KfW Kommunalbank achieved a volume of EUR 11.8 billion in 2011, slightly exceeding the target volume of EUR 11.5 billion. The decline against the previous year (EUR 15.8 billion) was primarily due to the phase-out of the "Investment Offensive Infrastructure" and the scheduled reduction of non-programme-related funding for promotional institutions of the federal states. The broadly-based programmes such as “KfW-Investitionskredit Kommunen” or “Kommunal Investieren” recorded strong demand, so that the volume of infrastructure financing of EUR 4.1 billion roughly doubled from the year 2009.

The business area Export and Project Finance, which is under the responsibility of KfW IPEX-Bank, achieved a commitment volume of EUR 13.4 billion. The highest commitments were achieved in the sector Energy and Environment, at EUR 2.1 billion, followed by Shipping as well as Aviation and Rail Transport with EUR 2.0 billion each. The reasons for the increase were enterprises' propensity to invest and the relative restraint on the part of banks and capital market players in individual segments.

The volume of commitments in the business area Promotion of Developing and Transition Countries was EUR 5.8 billion (2010: EUR 5.7 billion). KfW Entwicklungsbank accounted for EUR 4.5 billion (2010: EUR 4.5 billion). KfW Entwicklungsbank contributed EUR 2.6 billion in own funds. Seventy-nine per cent of the KfW commitments made by KfW Entwicklungsbank in 2011 (2010: 75 %, 2009: 64 %) count as ODA. This underscores the growing importance of KfW's role as a partner of the Federal Government in this area. DEG, which is active in the financing of small and medium-sized enterprises in developing and transition countries, committed EUR 1.2 billion, the same volume as in the previous year (EUR 1.2 billion).

The KfW Programme to Refinance German Export Loans, which was launched in 2009 to mitigate the financial and economic crisis, was continued at changed terms and conditions in February 2011. Under this programme KfW provides banks with long-term funds to finance German exports. As banks' funding conditions tightened particularly in the second half of 2011 the programme has met with strong demand. With commitments in the equivalent of EUR 650 million the programme has contributed to safeguarding German export projects.

To fund its promotional business KfW raised EUR 79.7 billion in long-term funds in the capital markets (2010: EUR 76.4 billion). For this purpose KfW issued around 350 bonds in eleven different currencies. The success of KfW's funding operations is due not only to the first-class credit quality of the Federal Republic and the explicit state guarantee, but also to its own transparent and long-term issuing strategy. In 2011, a year characterised by great anxiety and high volatility, KfW benefited from investors' "flight to quality". For 2012, KfW is again planning a funding volume of around EUR 80 billion.

Operating result in the financial year 2011

The KfW Group continued to benefit from the very favourable overall conditions and the positive operating results of KfW IPEX-Bank and DEG. The good funding conditions in particular, combined with the healthy shape of the German economy, have benefited the income situation. As a result, both the interest income and risk provisions for lending business were significantly higher than the long-term expectations.

The above-average operating result before valuation of EUR 1.9 billion was primarily due to the very good funding conditions of KfW, which currently result not only from its first-class credit rating but also from the continuing very low interest rates in the short-term segment. The interest rate reductions of EUR 557 million granted in KfW's promotional lending business remained at a high level. The risk situation has again developed positively, which is primarily due to the good state of the German economy. As a result, KfW was able to substantially reverse risk provisions while maintaining its conservative risk policy. The financial markets are characterised by continuing high uncertainty, particularly because of the problems in the European sovereign debt sector. These had an adverse effect on the securities portfolio of the KfW Group and impacted the income statement.

Dr Ulrich Schröder (Chief Executive Officer)

Dr Günther Bräunig

Dr Edeltraud Leibrock

Bernd Loewen

With a consolidated profit of EUR 2.1 billion, all business activities were on a continued exceedingly high level. Given the stricter regulatory capital requirements and uncertainties over future economic developments, the improved capital base achieved with this result safeguards KfW's promotional capacity in the long term.

The strong growth in consolidated total assets to EUR 494.8 billion is primarily due to increased liquidity maintenance and changes in the market value of the derivatives used for hedging purposes and, to a lesser extent, to lending business.

Modernisation of KfW

The great ecological, social and economic challenges of our time are making new demands on enterprises and credit institutions. The role of KfW has grown, and so have the demands on its promotional capacity and efficiency. The needs and behaviour of clients towards a state promotional bank are changing at the same time. Thus in spite of its past successes, KfW has to modernise in many areas.

Dr Norbert Kloppenburg

Dr Axel Nawrath

To live up to the challenges that lie ahead, KfW has therefore been modernising for several years now. This modernisation process is not yet completed, however. Besides focusing on qualitative growth, KfW will present itself in an even more professional, efficient and client-oriented manner in the future.

In the course of our professionalisation process, last year we introduced the principles of the Public Corporate Governance Code of the Federal Republic (Public Corporate Governance Kodex – PCGK). On 1 October 2011 Dr Edeltraud Leibrock took up the new position of Chief Operating Officer and Chief Information Officer (COO/CIO). This position covers all areas of responsibility that control KfW's technical and infrastructure modernisation process. With its new arrangement KfW has now put a hierarchical organisation in place that is aligned with the market and has clear Executive Board structures. In addition, the independent Compliance Department started work on 1 April 2011. A core function of the new department is to further develop and adapt the existing compliance management system to the changed legal requirements and market trends. Last year KfW also implemented the third MaRisk amendment and continued developing its risk management. Although KfW is not subject to the statutory regulations for banks, it voluntarily applies major provisions of the German Banking Act, and it will implement Basel III. In addition, KfW is preparing early for the foreseeable changes to the International Financial Reporting Standards (primarily IFRS 9).

The good business results of the past years were also marked by exceptional effects. In order to be able to continue fulfilling its promotional mandate, in the years ahead KfW will have to give more importance to the topic of efficiency. A number of measures have been introduced to make business processes more efficient. For example, over the next five years we will be investing some EUR 500 million in our IT services. To meet this challenge we are recruiting new staff. In 2011 we already hired 130 new IT employees, and we plan to add 130 more in 2012.

As a subsidiary promotional bank of the Federal Republic, KfW continues to adhere to the onlending principle. However, we want to shift the focus of our efforts even more strongly on the client. Our aim is to align the promotional offering and service more closely with the needs of the consumers. The guiding principle of our client orientation is the informed consumer. We therefore intend to further expand our web presence. In 2012 we will redesign the presentation of some of our promotional schemes in two online pilot projects. In the medium term we plan to present all of KfW's services in this way.

KfW's public perception

Our clients and partners should know exactly what KfW stands for, how it meets its clients' expectations and what values guide its actions. Therefore, one aspect of our modernisation process is to illustrate the particular role and functions of KfW as a promotional bank and to improve its perception among our clients and the general public. So last year we drove forward the process to sharpen the brand profile with the participation of our employees: Who is KfW? What are its distinguishing features?

The topic of responsibility is at the heart of KfW – in its domestic promotional business, in development cooperation and in export and project finance. The same is true of our activities in the capital market or as an employer. Responsibility describes KfW's identity and emphasises our difference to other enterprises that are only focused on maximising their commercial success.

As a consequence of this realisation we have undertaken a critical review of KfW's image. The new design is intended to reflect our claim of being a self-assured, responsible, internationally operating, modern and client-orientated promotional bank.

Last year KfW proved once again that it is indispensable as a promotional bank. It will continue to support economic, ecological and social development as a "bank behind the banks" in the years ahead as well. This is another reason our clients and partners should know what the modern KfW stands for – a bank dedicated to responsibility.

Dr Ulrich Schröder
(Chief Executive Officer)

Dr Günther Bräunig | Dr Norbert Kloppenburg | Dr Edeltraud Leibrock | Bernd Loewen | Dr Axel Nawrath

WE PROMOTE GERMANY

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

BIOENERGY FOR BERCHTESGADEN – A SUPERLATIVE

In commercial environmental protection financing, the biomass combined heat and power plant in the Berchtesgaden region is seen as a project of superlatives. Of all the biomass plants financed by KfW, this is the largest project at 6 MW, delivering energy to 230 heating customers through its heating network of more than 20 km. With a total investment of more than EUR 17 million, KfW financing of EUR 12 million and a repayment bonus of EUR 814,000, this project is one of the largest projects to date to have been financed through the KfW Renewable Energies – Premium Programme.

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

ENERGY-EFFICIENT REFURBISHMENT WITH KFW FUNDING

Ms Mertin from Rohrdorf near Rosenheim did everything right when refurbishing her house. Energy-efficient insulation, new windows and doors and a new heating system will bring it up to the level of a KfW Efficiency House 85. She financed this project with the help of KfW, which provides low-interest loans of up to EUR 75,000 per home for energy-efficient refurbishment. In 2011, KfW Privatkundenbank provided a total of EUR 2.9 billion to fund energy-efficient refurbishment.

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

A SHINING EXAMPLE FOR ALL URBAN AREAS

By August 2011, the town of Langen in the district of Cuxhaven had equipped all 2,600 of its street lights with modern, energy-efficient LED light bulbs. Following the switch, the town expects cost savings of around EUR 160,000 a year. In addition, the new LEDs mean that around 467,000 kilowatt hours of electricity can be saved and 467 tonnes of carbon emissions avoided each year. There are even medium-term plans for a solar park, which will involve supplying the lamps with completely carbon-neutral electricity from renewable energy. An illuminating plan – financed with a loan from KfW Kommunalbank.

ENERGIEWENDE. WIR FÖRDERN DAS. KfW

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

AT A GLANCE: DOMESTIC PROMOTION IN 2011

KfW is supporting the Federal Government in restructuring the energy supply as part of the KfW Energy Turnaround Action Plan.

KfW funding tackles social challenges.

KfW is creating a new finance offering for social enterprises.

The launch of the KfW Offshore Wind Energy Programme is an important milestone in the KfW Energy Turnaround Action Plan.

Through its energy strategy the Federal Government is putting Germany on a path towards sustainable energy. Following the nuclear disaster in Fukushima in Japan, it has now also decided to speed up the phasing out of nuclear energy. In order to implement the energy turnaround to the extent envisaged, it is anticipated that investment of around EUR 250 billion will be required by 2020. As part of the KfW Energy Turnaround Action Plan, KfW is supporting the Federal Government in accelerating the restructuring of the energy supply with numerous financing offerings.

KfW launched the KfW Offshore Wind Energy Programme in June 2011. On behalf of the Federal Government, KfW made financing available for up to ten offshore wind farms.

KfW made two financing commitments for the Meerwind and Global Tech I projects by the end of the year, worth EUR 544 million. The two wind farms are expected to generate a combined total output of 688 MW and supply around 805,000 households with renewable energy.

High level of corporate environmental and climate protection financing

In addition, KfW's established programme business for environmental funding was strong again this year and will remain so. In 2011, half (48 %) of KfW Mittelstandsbank's total commitment volume was accounted for by environmental and climate protection, a key area of the bank's financing activities.

KfW has made the financing of corporate energy efficiency plans a focal part of its programme for corporate environmental protection, and has increased its volume of funding for this area compared to the previous year.

Another focus was on the promotion of renewable energy. Particularly noteworthy is that KfW succeeded in substantially exceeding the previous year's high volume of promotional financing.

Growth financing for social enterprises – new financing segment

In the autumn, the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) commissioned KfW to set up a programme to finance social enterprises. Social enterprises help solve social problems by producing innovative ideas. The new financing offering is intended to provide them with the necessary capital to implement effective, broad-based approaches. KfW is closing a gap with this funding, as social enterprises had previously lacked sufficient financing opportunities.

KfW Student Loan – support for over 100,000 students

Within just five years of the programme being launched, a total of 100,000 students have received a KfW Student Loan. More new loans were extended in 2011 than in any year previously – over 22,000. A current evaluation of the programme shows that 86 % of people financed by KfW would not have been able to go to university without the KfW Student Loan, and that these loans are taken out predominantly by students whose parents' earning fall within the lower income range. The KfW Student Loan enables students to cover their living costs during a first degree independently of their parents, thus allowing them to focus on graduating.

Housing: energy efficiency and age-appropriate conversions remain the focus.

In 2001 we supported the energy-efficient construction of over 80,000 homes. This meant that every second newly built home met the Efficiency House standard promoted by KfW. Once again, the complete or partial energy refurbishment of more than 180,000 homes (involving either the implementation of single measures or comprehensive rehabilitation to the KfW Efficiency House standard) was particularly important. Energy modernisation to create a KfW Efficiency House combines measures for increasing energy efficiency, such as improved insulation of the building's shell, with heat generation, for example on the basis of renewable energy. The Age-appropriate Conversion Programme for improving accessibility is in many cases combined with the Energy-Efficient Refurbishment Programme. In 2011, the volume of commitments was more than doubled compared to the previous year. For example, more than 43,000 homes were made accessible by lift or had their bathrooms made fully accessible. Furthermore, almost 97,000 homebuilders were able to realise their dream of owning their own home with the help of the KfW Home Ownership Programme.

New promotional instrument – the Family Care Leave Loan

On 29 December 2011, the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) and KfW signed the contractual agreement for the refinancing of the Family Care Leave Loan. This is another huge step towards achieving a better work-life balance. With the interest-free Family Care Leave Loan, companies can give their employees an opportunity to take time out for family members in need of care without jeopardising their financial security.

Energy efficiency: focus on promoting municipal infrastructure

In 2011 KfW Kommunalbank began focusing its product range more sharply on environmental and climate protection, and now has considerably more products available. The programme for promoting energy-saving building rehabilitation was widened to include all public and social buildings. Two new promotional programmes were also launched. Following Energy-Efficient Street Lighting, as the year drew to a close Urban Energy-Efficient Rehabilitation added the component “grants for integrated district plans and refurbishment managers”.

BETWEEN ECONOMIC BOOM AND ENERGY TURNAROUND – HIGH LEVEL OF KFW PROMOTIONAL ACTIVITY IN 2011

Germany recovered more quickly from the economic collapse of 2008 and 2009 than almost all other countries, and the German economy was in very good shape over much of 2011. KfW's domestic promotional programmes played no minor role in this. After the planned expiry of the stimulus package, KfW's was once again able to focus its promotional activities more strongly on responding to society's structural challenges.

In 2011 the volume of domestic promotional financing totalled EUR 50.9 billion. After an exceptional year in 2010, the commitment volume fell substantially, but was still somewhat higher than in 2008 and 2009.

KfW strengthens Germany as a business location, finances important investments and protects jobs.

KfW helped finance total investments of EUR 77.8 billion, creating or securing more than 2.1 million jobs for the year. In this way KfW made a major contribution to Germany's economic strength.

KfW was again able to achieve a very high promotional business volume in domestic environmental and climate protection financing. An annual saving of around 4.9 million tonnes of CO_2 was achieved with commitments of EUR 18.4 billion.

German economy in great shape – promotional bank focuses on structural challenges

KfW promotional activities focus on meeting society's challenges.

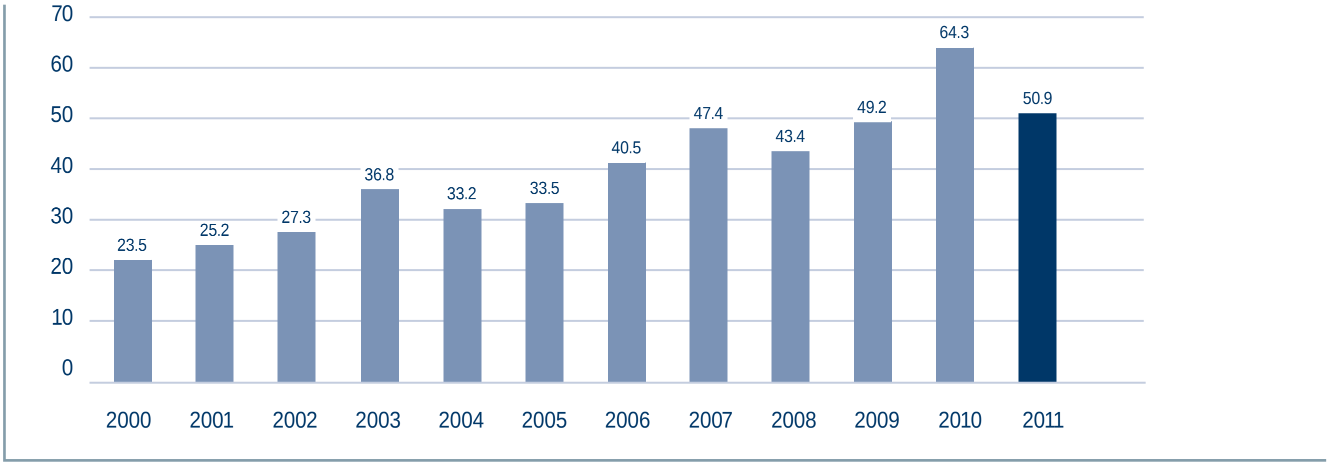
With its gross domestic product growing by 3%, the German economy was in very good shape overall in 2011, despite the deterioration in the final quarter of the year. In the second quarter of 2011, the period of crisis was brought to an end exactly two years after it began. In this environment, KfW was able to focus its promotional activities more strongly on tackling structural challenges.

Accordingly, in 2011 it achieved a promotional volume of EUR 22.4 billion in corporate promotion (compared to the previous year's figure of EUR 28.6 billion), despite the expiry of the KfW Special Programme.

In the key promotional area of innovation financing, which is important for the long-term competitiveness of the German economy, commitments rose slightly to EUR 2.2 billion. Corporate environmental funding was similar to that of the previous year, reaching a figure of EUR 10.8 billion. Following the reduction in feed-in compensation under the German Renewable Energies Act, the demand for loans for photovoltaic systems fell in the KfW Renewable Energies Programme – Standard. At the same time, the volume of promotional financing for environment and energy efficiency was more than doubled, to a figure of EUR 3.2 billion.

The KfW Special Programme – a model of success: The KfW Special Programme expired as planned. The last loans were granted in the first half of 2012. The programme, which started in January 2009, made at least 5,000 loans worth EUR 14 billion in total. The majority of these went to medium-sized enterprises. Investments of EUR 13.5 billion were initiated and 1.2 million jobs in companies receiving support were secured for at least a year. The KfW Special Programme thus also helped the German economy to recover so quickly from the crisis and remain in superb shape over much of 2011.

Volume of domestic promotional loans (EUR in billions)[1)]



[1)] *Excluding securitisation; from 2000 to 2002 excluding promotional business DtA*

Housing promotion continued to focus on the challenges of environmental and climate protection, and demographic change. The housing programmes reached a total commitment volume of EUR 14.6 billion (compared to the previous year's figure of EUR 18.8 billion). This decline was primarily caused by increased eligibility criteria and reduced budget funds for the Energy-Efficient Refurbishment and Energy-Efficient Construction programme family, and product restrictions in the KfW Home Ownership Programme.

As anticipated, commitments for the Energy-Efficient Refurbishment and Energy-Efficient Construction programmes fell to EUR 6.5 billion in 2011 (compared to the previous year's figure of EUR 8.7 billion). The commitments in the KfW Home Ownership Programme were reduced from EUR 6.5 billion to EUR 5.9 billion. The Age-appropriate Conversion Programme developed very encouragingly. Its commitment volume doubled to EUR 444 million.

The financing of education reached a record level of EUR 2.2 billion, primarily due to a further increase in demand for the KfW Student Loan.

Despite continued strong demand, infrastructure promotion fell below the prior-year level of EUR 6.1 billion, reaching only EUR 4.1 billion. This was because the Unrestricted Municipal Loan (which reached a figure of approx. EUR 1.8 billion in 2010) and the Infrastructure Investment Offensive (which reached approx. EUR 1.3 billion in 2010) expired as scheduled at the end of 2010. It is particularly gratifying to note that commitments in the Municipal Investment Programme nearly tripled compared to the previous year. Just as with SME and housing promotion, the promotional offerings for infrastructure financing also consistently focused on environmental and climate protection in 2011.

Consistent focus on environmental and climate protection also in infrastructure promotion.

ACHIEVING THE ENERGY TURNAROUND: KFW PRESENTS ITS ACTION PLAN

In the wake of the nuclear power plant disaster in Fukushima, the German Government set ambitious targets for transforming the energy supply. In its capacity as the promotional bank of the German Federal Government and the federal states, KfW Bankengruppe will play a key role in helping bring about this transition. KfW has responded swiftly to these new challenges and is supporting the Federal Government with the KfW Energy Turnaround Action Plan, which aims to meet the huge financing requirements. Over the next five years KfW will provide more than EUR 100 billion for investments in the energy sector in Germany.

KfW is one of the largest providers of finance in environmental and climate protection in Germany and the world.

Achieving the energy turnaround will require staying power. KfW funding is having a tangible impact.

The KfW Energy Turnaround Action Plan will improve and expand KfW's 2011 and 2012 financing offerings for private individuals, companies and municipalities. This action plan includes financing for renewable energy use such as offshore wind farms, for energy-efficient refurbishment and construction of residential buildings, and for larger municipal investments in energy efficiency. KfW is thereby continuing its successful promotion of environmental and climate protection. The effectiveness of the promotion has been demonstrated by numerous evaluations.

KfW funding works

Environmental and climate protection have been important focal points for KfW's domestic promotion for a number of years. This has made KfW one of the world's largest finance providers in the energy sector today. KfW reported a commitment volume of EUR 22.8 billion for environmental and climate protection measures in Germany and abroad in 2011, of which EUR 7.6 billion was for renewable energy and EUR 6.6 billion for energy efficiency in buildings.

Promoting renewable energy triggers investment

In 2011, KfW promotional loans in the KfW Renewable Energies Programme triggered investments of around EUR 10 billion. This offering will remain an integral part of the KfW action plan in the future. Evaluations now available for 2010 clearly demonstrate the significance of KfW's financial support. KfW was involved in over 40 % of all investments in renewable energy development in Germany in 2010. The figure for wind energy – almost 80 % – is particularly high. The plants financed by KfW mean that 4.8 million tonnes of carbon equivalent a year are being permanently avoided – this alone corresponds to around 7 % of the annual greenhouse gas reduction targeted by the Federal Government to be achieved through renewable energy development in electricity and heating.

The production and construction of the plants receiving support secured around 52,000 jobs in Germany, some 74 % of which were in small and medium-sized enterprises.

Saving energy in the buildings sector has a major impact on climate protection

The buildings sector is playing a key role in the energy turnaround, as 35 % of the energy in Germany is used for heating rooms and supplying hot water in buildings. The majority of this energy is used in residential buildings. Of the approximately 19.5 million buildings in Germany, 18 million are residential. The huge potential for energy saving is frequently not exploited due to financial constraints and lack of information. This is precisely where the KfW programmes come in, by creating financial incentives, setting standards and in this way showing customers the way forward. These programmes thus take into account the significance of the buildings sector in achieving energy targets.

In 2011, KfW financed the energy-efficient refurbishment and energy-efficient construction of around 262,000 homes, and supported the energy planning and construction supervision of more than 20,000 homes. In 2011, every second newly built home was funded by KfW to the KfW Efficiency House standard.

Evaluations show that the energy rehabilitation and energy-efficient new builds which KfW promotes have reduced greenhouse gas emissions by an average of 900,000 tonnes every year since 2006.

A brief example: in order to reach the Federal Government's target of a 40 % reduction in greenhouse gas emissions from private households, according to preliminary figures for 2010, these households would need to cause 3.4 million tonnes less greenhouse gas per year by 2020. In 2010 and 2011, the energy-efficient modernisations and new builds that KfW Bankengruppe supported helped achieve an average of 23 % of this necessary annual saving.

The programmes help not only the environment, but also building owners and tenants. A study published at the end of 2011 shows that total heating costs of around EUR 6.4 billion will be saved through the measures implemented in 2010.

In 2011, the promotional programmes for the energy-efficient refurbishment and construction of buildings triggered investments of over EUR 18.6 billion and secured almost 250,000 jobs for the year in the German economy. These positive effects primarily benefit local medium-sized construction companies and tradesmen.

Municipal investments strengthen environmental and climate protection

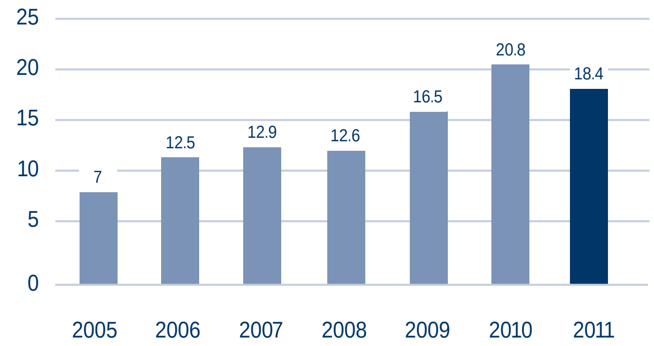
KfW Kommunalbank has for many years been offering programmes that are specifically designed to promote municipal environmental and climate protection investments, and are provided at low rates of interest, subsidised by funds from the Federal Ministry of Transport, Building and Urban Development (BMVBS). Since 2011, it has been possible to finance energy rehabilitation for all municipal and social infrastructure buildings at a low rate of interest. KfW Kommunalbank introduced a new promotional standard in 2011 with the Energy-Efficient Urban Lighting Programme.

In addition, the Urban Energy-Efficient Rehabilitation Programme was launched, subsidised by the Federal Government and in line with its energy strategy. As an initial funding step, KfW will provide grants to fund the preparation of integrated district plans and the commissioning of refurbishment managers.

Achieving the energy turnaround will require staying power – environmental funding remains in focus

KfW will also further strengthen its involvement in environmental and climate protection in 2012 and will implement further components of the KfW Energy Turnaround Action Plan. It will thus continue its established track record of successfully financing environmental and climate protection measures and making a major contribution to the energy turnaround process.

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



BUSINESS AREA KFW MITTELSTANDSBANK

The KfW Mittelstandsbank business area supports SMEs, start-ups and the self-employed through its financing products and advisory services for starting up businesses, general investment, innovation and environmental protection.

Promotional volumes – an overview

In line with expectations, KfW Mittelstandsbank's commitment volume fell below the prior-year level, reaching EUR 22.4 billion. This was due to the expiry of economic stimulus packages, particularly the KfW Special Programme, which made commitments of over EUR 6 billion in the previous year.

In the key promotional areas of start-ups and general corporate financing, this meant that the commitment volume fell from EUR 15.4 billion to EUR 9.4 billion.

Loans for energy efficiency measures in very high demand

Funding for environmental protection, by contrast, remained at a similarly high level to the previous year (EUR 11.1 billion). Although there was a reduction in loans for photovoltaic systems in the KfW Renewable Energies Programme – Standard, this effect was compensated by very high demand for loans for energy efficiency measures.

In the key promotional area of innovation financing, commitments rose slightly from EUR 2.1 billion to EUR 2.2 billion.

Start-ups and general corporate financing

Start-up financing restructured

Supporting start-ups and young companies is of special economic importance and remains one of the primary promotional areas at KfW Mittelstandsbank.

Programmes for start-ups and general corporate financing expanded

In order to optimise its existing financing offering, KfW restructured start-up promotion and general corporate financing in 2011. This involved expanding the promotional offering and creating a simpler and more intuitive programme structure. The range of start-up financing products has now been supplemented by the KfW Start-Up Loan – Universal Programme. This programme can be used in many ways for business start-ups and self-employed professionals at particularly favourable interest rates. Together with the start-up projects promoted through the KfW Entrepreneur Loan, commitments under the KfW Start-Up Loan – Universal Programme reached a volume of EUR 1.9 billion.

KfW also provides particularly extensive support for start-up projects through its special programme KfW Start-Up Loan – StartGeld. The upper limit on loans under this programme was doubled in 2011 from EUR 50,000 to EUR 100,000. Here, KfW assumes 80 % of the credit risk from the start-ups' own banks with the help of a guarantee from the European Investment Fund, provided under the European Union's Competitiveness and Innovation Framework Programme (CIP).

More than 6,600 start-ups were supported in 2011 under the KfW Start-Up Loan – StartGeld Programme alone. The total volume of commitments was EUR 249 million.

The range of products to promote start-ups also includes the proven ERP Capital for Start-Ups Programme. This involves KfW Mittelstandsbank providing start-ups with subordinated capital. Almost 1,300 start-ups were supported under this programme in 2011, with commitments totalling EUR 168 million.

The KfW Entrepreneur Loan – a key component of SME promotion

Since it was introduced in 2003, the KfW Entrepreneur Loan has been the cornerstone of KfW's SME financing in Germany, and this did not change in 2011; 10,000 KfW Entrepreneur Loans worth a total of EUR 6.4 billion were granted.

As part of the restructuring of KfW's financing offering, funding for established companies was largely consolidated in the KfW Entrepreneur Loan. For example, the KfW Capital for Work and Investments Programme was closed and its offering integrated into the provision of subordinated loans for SMEs under the KfW Entrepreneur Loan Programme.

Final commitments under the KfW Special Programme

Applications made under the KfW Special Programme had an approval deadline of 30 June 2011. Within this period, KfW was able to support a further 392 companies with loans totalling over EUR 691 million, helping to finance their plans and thus securing their credit supply.

German SME equity fund

The German SME equity fund, launched together with Commerzbank in 2010, provides larger SMEs with private equity, especially to finance growth plans. Equity is provided primarily through minority interests, to make sure that the entrepreneur remains "the boss". The fund made its first investments in 2011.

KfW Film financing – boosting Germany as a film production location

The arts and culture sector, of which film-making is a part, is one of Germany's most promising industries. On behalf of the Federal Government's Commissioner for Culture and the Media, KfW has developed a new financing offering specifically for film production companies. KfW provides them with direct loans to prefinance contractually agreed funding, or to cover gaps in the film budget, for example. KfW's new product gives the German film industry a wider range of financing options.

Innovation and equity finance

Promoting innovation – with equity and debt capital

Innovation and technical progress are among the main drivers of long-term economic growth. When companies develop new or significantly improved products and production processes, this accelerates structural change in an economy and makes it more competitive. Innovative developments are not a question of the company's age. In fact, innovation creates a division of labour between young and established companies.

New start-ups and young technology companies are an important engine of technological change – especially in the early phase, when scientific findings are being channelled into the development of new products and methods. Pioneering young companies often develop basic innovations and steer the structural change process towards promising sectors and technologies. However, they usually lack sufficient funds, and are dependent on partners with greater financial clout to provide venture capital and help their ideas to break through.

Innovative young companies are an important driver of technological change.

In the seed phase and the start-up phase that immediately follows, however, private partners with venture capital are often hard to find. Private equity providers usually do not get involved until the company has taken the initial steps and provided proof of concept, which allows its future prospects to be better evaluated. Yet even for companies that have completed this development phase, the supply of private equity still falls short of what would be desirable from the macroeconomic perspective.

KfW also finances innovations from established companies.

Older innovative companies often work in established sectors and technologies where they develop existing products and methods, helping to spread innovation throughout the wider economy. They are able to commercialise their strengths, making them an important pillar of the German innovation system. However, it is not always easy to finance innovations – even for established companies. Banks are often reluctant to provide appropriate lending. This is due partly to the technical complexity of the projects concerned, and partly to the difficulty of judging how successful an innovative idea is likely to be.

KfW therefore promotes both young and established innovative companies in equal measure – with equity, debt and mezzanine capital. It offers them various models designed to meet their specific financing requirements.

Vigorous demand for High-Tech Start-Up Fund – successor fund launched.

High-Tech Start-Up Fund II launched

To promote companies in their earliest stages (seed and initial start-up phase), in 2005 the Federal Government developed the High-Tech Start-Up Fund together with KfW and industrial investors. This fund largely comprises public money, and invests directly in young technology companies up to the age of one year. It can cover up to 100 % of financing requirements, and no private co-investor is required. The High-Tech Start-Up Fund I met with high demand, providing around 260 young technology companies with the necessary seed capital between 2005 and the end of 2011.

In October 2011 the second High-Tech Start-Up Fund was launched, with a volume of EUR 288.5 million. KfW has invested EUR 40 million in this fund. In addition to the Federal Government and KfW as the second-largest investor, twelve other companies have invested in the fund as part of a public-private partnership.

ERP Start Fund invests in young technology companies.

The fund is successfully continuing the work of its predecessor. It provides capital-seeking high-tech companies with initial financing of up to EUR 500,000 as risk capital, and supports them in realising promising research projects in their business.

ERP Start Fund boosted

While the High-Tech Start-Up Fund invests in the seed and initial start-up phase of technology companies, the ERP Start Fund comes in once the company has successfully completed its first stages of development. The ERP Start Fund was jointly launched by KfW and the Federal Ministry of Economics and Technology (BMWi) in 2004, and enables KfW to invest directly in young technology companies. The ERP Start Fund enables private venture capital providers – lead investors – to invest in young technology companies (up to the age of ten years) at the same time and on the same terms, and thus to share the risk. This means that more venture capital can be provided to finance the growth of young technology-based companies. At the same time, this gives important impetus to the German venture capital market.

The ERP Start Fund generates 100 % leverage for every euro that a lead investor (funds, private equity firms, business angels) provides to a technology company. A co-investment through the ERP Start Fund therefore doubles the financial clout of private investors. For example, a fund can double the number of investments it makes with a given fund volume. This ultimately increases the number of start-ups and technology-based companies able to access venture capital, improving the technological competitiveness of the German economy as a whole.

The ERP Start Fund was boosted by a further EUR 250 million in the summer of 2011. This takes the overall volume of private equity provided to cover the financing requirements of young, innovative companies to over EUR 720 million.

The ERP Start Fund made investments of EUR 70 million in young technology companies in 2011 alone.

ERP Innovation Programme

The ERP Innovation Programme aims to provide long-term financing of close-to-market research and development in established SMEs through a combination of debt and subordinated capital. KfW assumes the full risk for the subordinate tranche without demanding collateral from companies. This makes banks and savings banks more willing to invest in complex and high-risk innovation projects in the first place, while also enabling companies requiring loans to protect their collateral. Furthermore, the low interest rates incentivise companies to embark on innovative projects on a larger scale or within a shorter timeframe, enabling them to grow more quickly.

The volume of commitments reached EUR 1.3 billion, an increase of more than 60 % on the previous year's figure of EUR 814 million.

Corporate environmental funding

KfW Renewable Energies Programme

The Federal Government's energy and climate targets envisage a major increase in renewable energies. The process of achieving these targets has been further accelerated by the shift in energy policy adopted in June 2011. The proportion of renewable energies in the German electricity supply is to be increased to at least 35 % by 2020 (compared to 17 % in 2010). In addition, the proportion of renewables in total final energy consumption for heating is to reach 14 % by 2020 (compared to 10 % in 2010). Considerable investment will be required in order to reach these targets.

The KfW Renewable Energies Programme provides long-term, low-interest loans to fund measures for renewable energy use. The volume of promotion was very high once again in 2011, reaching EUR 7 billion.

The "standard" component of the programme provides long-term, low-interest loans to promote power generation using renewable energies. As in the previous year, a large proportion of funding was allocated to investments in photovoltaic systems. Loans for investment in wind power installations were also in high demand, including measures to replace old wind power installations with modern, more efficient facilities – so-called "repowering".

The "premium" programme component promotes investment in the area of heating. This is part of the market incentive programme of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), and promotes investment with low-interest loans and reduced repayment amounts subsidised by the Ministry's funds. As in the previous year, heating networks powered by renewable energies received the most funding.

Promoting the environment and energy efficiency

Energy efficiency in the commercial sector will need to be increased considerably in order to achieve the energy turnaround and help mitigate climate change. There is major energy-saving potential here. Moreover, energy efficiency measures in production processes and buildings can increase companies' competitiveness considerably. Energy-efficient technologies are becoming a profitable market for companies. Not only do they help mitigate climate change; their economic benefits are also highly significant.

In 2011, in a joint initiative with the Federal Ministry of Economics and Technology (BMWi), KfW offered special promotion for energy-efficiency measures in SMEs as part of the ERP Environmental Protection and Energy Saving Programme, delivered through the special fund Energy Efficiency in SMEs. The "general environmental protection measures" programme component provided loans for energy efficiency measures in large companies and for projects contributing to major environmental improvements, e.g. in waste and wastewater. As in the previous year, a large proportion of the promotional funds was allocated to energy-efficient new builds in the commercial buildings sector and plant retrofitting. The commitment volume in this area (including the KfW Environmental and Energy Efficiency Programme) was more than doubled year-on-year to EUR 3.2 billion.

Professional and independent energy advice identifies potential energy savings and increases energy productivity.

KfW Offshore Wind Energy Programme

The KfW Offshore Wind Energy Programme entered the market at the beginning of June 2011, marking a major milestone in the energy policy of the Federal Government. Two financing agreements have already been signed under the programme for wind farm construction, which is in demand. KfW's Offshore Wind Energy Programme is closing a financing gap of several billion euros, as the high sums required cannot be obtained from commercial banks alone. Offshore wind farms are not only of major importance for the energy turnaround; they also benefit domestic supply industries.

Promotional programmes for business consultancy

Start-Up Coaching in Germany

Start-Up Coaching in Germany, a programme offered since 2007 by KfW in collaboration with the Federal Ministries of Economics and Technology (BMWi), and Labour and Social Affairs (BMAS), has set itself the task of enabling start-ups to become firmly established and improve their prospects. The grants towards consultancy fees are financed by the European Social Fund.

A total of around 29,000 grants were awarded in 2011, maintaining the previous year's high level. Around two thirds of the grants were allocated to start-ups following unemployment. The programme was made much more client-friendly by streamlining procedures as of 1 April 2011.

Round Table and Turnaround Consulting

Round Table and Turnaround Consulting promote crisis advisory services, enabling SMEs to overcome economic difficulties with the help of professional advice. This promotion aims to restore the competitiveness and productivity of companies, thereby securing their employees' jobs. Like Start-Up Coaching in Germany, Turnaround Consulting is funded by money from the European Social Fund provided by the Federal Ministry of Economics and Technology (BMWi). Around 2,200 Round Tables and 1,500 Turnaround Consultations were requested in financial year 2011.

Energy advice in SMEs

The promotional programme Energy Efficiency Advice provides expert independent consultation to reduce information deficits, identify potential savings and support the implementation of energy-saving measures in industry and commerce. Almost 5,000 companies received a grant for energy advice in 2011, financed by the Federal Ministry of Economics and Technology (BMWi). A large number of energy-efficiency measures were launched with the help of these funds. Identifying areas of potential energy savings and proposing improvements for energy productivity helps significantly reduce business operating expenses and increase competitiveness in times of rising energy and electricity prices.

Volume of promotional financing of the business area KfW Mittelstandsbank as at 31 December 2011

Programmes	Promotional business volume 2010	2011	Purpose
	EUR in millions	EUR in millions	
KfW Mittelstandsbank total	28,630	22,407	
Start-ups and general investments	15,397	9,365	
KfW Special Programme	6,176	691	Corporate investments under the economic stimulus measures
KfW Entrepreneur Loan	8,006	6,338	Investments by SMEs (including start-ups until restructuring of start-up promotion as of 1 April 2011)
Entrepreneur Capital - Capital for work and investments	72	31	Investments by SMEs with debt capital and subordinated loans
ERP Capital for Start-Ups	179	168	Start-ups and young companies, company succession through subordinate loans
KfW Start-Up Loan (including KfW StartGeld)	220	943	Start-ups and young companies, company succession
ERP Regional Promotion Programme	473	597	Investments to improve regional economic structure
ERP Participation Programme	90	83	Private equity for small and medium-sized enterprises
Other promotional programmes	55	137	
Global loans commercial enterprises	–	250	
Advisory support	126	127	
Innovation	2,119	2,214	
ERP Innovation Programme	814	1,309	Research and development measures, market launches with debt and subordinated capital
ERP Start Fund	80	70	Young innovative technology companies through private equity
Special financing R&D	1,225	835	Development costs in aviation
Environment	11,113	10,828	
ERP Environmental Protection and Energy Efficiency Programme	1,455	1,894	Environmental protection and energy efficiency measures
KfW Environmental Protection and Energy Efficiency Programme	-	1,314	Environmental protection and energy efficiency measures
KfW Renewable Energies Programme	9,591	7,017	Investment in renewable energies
KfW Offshore Wind Energy Programme	-	542	Offshore wind farms
ERP Environment - Commercial Vehicles (including grant programme)	21	26	Acquisition of energy-efficient commercial vehicles above 12 tonnes
BMU Environmental Innovation Programme (including grants)	46	36	Projects with demonstrative character in the area of environmental protection

Differences in the totals are due to rounding

Commitments by the business area KfW Mittelstandsbank in 2011, by federal state*

Federal state	Number	Volume 2011 (EUR in millions)
Bavaria	25,559	3,765
Baden-Württemberg	15,215	3,483
North Rhine-Westphalia	19,209	3,289
Lower Saxony	9,763	2,030
Hamburg	1,041	1,497
Brandenburg	1,520	1,390
Schleswig-Holstein	3,473	1,179
Hesse	5,117	951
Rhineland-Palatinate	3,983	897
Saxony	2,124	579
Saxony-Anhalt	1,138	567
Mecklenburg-Western Pomerania	1,054	491
Thuringia	1,229	326
Berlin	1,241	323
Saarland	834	242
Bremen	304	98
Not indicated	251	348
Abroad	203	825

*without advisory support

To access and analyse KfW's promotional statistics online, go to: www.kfw.de/foerderreport.

BUSINESS AREA KFW PRIVATKUNDENBANK

KfW Privatkundenbank bundles our offerings for private clients and housing companies. It focuses on promoting housing and education. With housing loan and grant programmes, KfW finances measures to increase energy efficiency, promote renewable energy use, improve accessibility in residential accommodation and create owner-occupied housing stock. Various educational programmes support the transition to an information and knowledge economy. The focus here is on funding living expenses for university students and trainees under the Master BAföG grant programme (Upgrading Training Assistance Act). In the social sector, KfW will fund loans for family care leave.

Housing promotion

In 2011, housing promotion focussed even more strongly on long-term sustainability issues (greater energy efficiency, renewable energy use and improved accessibility in residential accommodation). This involved reducing the maximum loan amount to EUR 50,000 under the KfW Home Ownership Programme (in two steps), and discontinuing the Housing Modernisation programme as of 31 December 2011. KfW is now continuing the Age-appropriate Conversion Programme using its own funds following the discontinuation of federal funding as of 1 January 2012.

Energy-Efficient Refurbishment and Energy-Efficient Construction

Greater energy efficiency and renewable energy use are a fundamental part of the energy turnaround process in the buildings sector. There is considerable potential to be tapped here by using energy-saving measures that deliver macroeconomic benefits. On behalf of the Federal Ministry of Transport, Building and Urban Development (BMVBS), KfW is promoting the energy-efficient modernisation and construction of residential buildings using the Energy-Efficient Refurbishment and Energy-Efficient Construction Programmes. The energy efficiency measures and the switch to renewable energies usually take place at the same time. As a result, the measures carried out lead to considerably reduced carbon emissions from buildings. The measures implemented also benefit German SMEs and small skilled trade businesses.

These promotional programmes are aimed at anyone who would like to construct or rehabilitate buildings with energy efficiency in mind. The terms of financing are based on the statutory building regulations that builders must in any case comply with when modernising or constructing buildings. KfW promotes projects that are better than the legal minimum standard. Together with the Federal Ministry of Transport, Building and Urban Development (BMVBS) and the German energy agency dena, KfW has introduced the KfW Efficiency House as a certificate of energy efficiency. The KfW Efficiency House is now well established on the market and has become a national standard for the energy efficiency of residential buildings. It is an ideal combination of renewable energy use and high energy efficiency. In March 2011, KfW reintroduced the promotion of individual energy efficiency measures with exacting standards in the Energy Efficient Refurbishment Programme, which had been temporarily suspended. 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.

KfW promotional programmes for anyone constructing or rehabilitating buildings with energy efficiency in mind.

The KfW Efficiency House is firmly established on the market and sets quality standards.

Regardless of whether building or refurbishment measures are to be carried out individually or as part of a comprehensive KfW Efficiency House refurbishment, they must be evaluated by an expert. To improve the quality of energy advice, energy-efficient refurbishment and new builds, the Federal Ministry of Economics and Technology (BMWi), the Federal Ministry of Transport, KfW offers support through a "list of experts" to provide energy advice as well as technical planning and construction supervision for the KfW Efficiency House 40 and 55 (including passive house).

The better the energy efficiency, the more attractive the financing from KfW.

Building and Urban Development (BMVBS), the Federal Office of Economics and Export Control and KfW published an online national “list of experts” on 15 December 2011 that includes clear information. The idea behind this list of experts for the Federal Government’s promotional programmes for energy efficiency is to further improve the planning and realisation of particularly efficient residential buildings. This is achieved by requiring all experts to meet standard qualification criteria and show evidence of regular further training, as well as by carrying out spot checks. The experts listed and certified are therefore particularly skilled in carrying out the highly demanding planning work for KfW Efficiency Houses 40 and 55, as well as in supervising their construction. The list is maintained by *dena*.

Low-interest loans are the key promotional instrument for energy-efficient refurbishment and construction. The low interest rates are made possible by interest rate reductions from federal budget funds and KfW’s advantageous refinancing opportunities on the capital market. If KfW Efficiency House status is achieved through refurbishment measures, the borrower additionally receives a repayment bonus, i.e. part of the loan debt – up to 12.5 % – is cancelled. The same applies for a new build of a KfW Efficiency House. The better the energy efficiency, the more attractive the financing from KfW. Private owners of single-family and two-family houses as well as homeowner associations also have the option of applying directly to KfW for attractive investment grants.

Although less Federal Government funding was available in 2011 than in 2009 and 2010, the promotional result confirms once again that the Energy-Efficient Refurbishment and Energy-Efficient Construction Programmes play a major role in determining the investment decisions of end clients. More than two thirds of end clients have brought their modernisation or construction plans into line with KfW standards. This demonstrates that the programmes for energy-efficient refurbishment and construction are making a widespread impact and an important contribution towards achieving Germany’s ambitious energy and climate targets.

For example, the KfW Energy-Efficient Refurbishment and Energy-Efficient Construction Programmes contributed on average 23 % of the carbon reduction required each year from households until 2020. Continuing to meet these targets in future will require further major investment in energy-efficiency measures, plus incentives. Through its highly ambitious efficiency house standards, KfW is stimulating continued development of the technology required for energy-efficient refurbishment and construction.

At the same time, however, KfW is also expanding promotion of less ambitious efficiency house standards and individual measures. The KfW Efficiency House Monument standard will be introduced as of 1 April 2012. The terms of promotion are the same as those for KfW Efficiency House 115, except that only the annual primary energy consumption of a KfW Efficiency House 160 needs to be achieved, and loss of heat through external walls is not a secondary target. Not only may official monuments be renovated under this scheme, but also buildings deemed particularly worthy of preservation. Optimising heat distribution in existing heating systems will also be available as a new individual measure under the Energy Efficient Refurbishment Programme from 1 April 2012. Moreover, the application procedure will be further simplified to make the on-lending of promotional funds more attractive for banks. The subsidies in the Energy-Efficient Refurbishment Programme have already been increased as of 1 January 2012.

Age-appropriate Conversions

Demographic change means that the proportion of older people in our society is rising, and with it the demand for affordable, accessible accommodation. We need to help ensure that elderly people or those with disabilities of any kind are able to lead independent lives under their own roof for as long as possible – relieving the pressure on social security budgets at the same time. This is why

KfW launched the Age-appropriate Conversion Programme in collaboration with the Ministry of Transport, Building and Urban Development (BMVBS) in 2009, in order to promote the creation of accessible residential accommodation. Low-interest 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. With this programme, KfW has defined the first national standard for creating accessible housing, which now provides an important frame of reference.

2011 was the best year ever for new commitments under this programme, by a considerable margin. The Federal Government programme, which expired as planned as of 31 December 2011, is being continued in the form of loans using KfW's own funds with effect from 1 January 2012. The programme and administrative procedures will be simplified considerably as of 1 April 2012. The grant option expired on 31 December 2011.

KfW Home Ownership and Housing Modernisation Programmes

KfW promoted home ownership and general modernisation measures in 2011 through its KfW Home Ownership and Housing Modernisation Programmes. Due to the focus on long-term sustainability issues, i.e. energy efficiency and accessibility, the maximum loan amounts in both programmes were reduced in 2011. Since 1 January 2012, the maximum amount available under the KfW Home Ownership Programme has been EUR 50,000. The Housing Modernisation Programme was discontinued as of 31 December 2011 in order to avoid overlaps with other programmes. Energy-efficiency and accessibility measures, which were previously also promoted in the Housing Modernisation Programme, will in future be promoted exclusively through the Energy-Efficient Refurbishment and Age-appropriate Conversion Programmes, which place particular emphasis on sustainability.

KfW Award 2011

The KfW Award was presented for the ninth successive year in 2011. The theme of the competition in 2011 was "energy efficiency with charm". The entries were model refurbishment measures or new replacement buildings that reduce energy consumption considerably, while also making a positive contribution to their local surroundings and blending into the urban landscape. A jury of experts selected five winning projects by private owners from a total of 239 entries that meet today's energy efficiency requirements ideally and fit into their surroundings.

"Energy-efficiency with charm" was the competition theme for the KfW Awards 2011.

Getting smarter thanks to KfW loans

The 100,000th student received a KfW Student Loan in 2011, within just five years of the programme being launched. This has established the loan programme once and for all as an important instrument for student finance. By providing students with up to EUR 650 per month, the KfW Student Loan enables them to cover their living costs during a first degree independently of their parents. This gives many their first chance to study at all, as 86 % of loan recipients confirm. A new development since 2011 is that the age limit has been raised to 34 years, following the trend towards lifelong learning.

Eighty-six per cent of all loan recipients confirmed that they were only able to study thanks to the KfW Student Loan.

In education financing, KfW acts as a strong partner of the Federal Government and the federal states. The Master BAföG (Upgrading Training Assistance Act) Programme supports individuals who are training to become master craftsmen, master industrial technicians, trained specialists or the like. The Education Loan provides low-interest financial support to students who are in the advanced stages of their training. Once the support in the form of an interest-free government loan has expired, BAföG recipients can claim low-interest funding via the BAföG bank loan distributed by KfW.

KfW finances the cost of living for those undergoing higher education or professional training.

In addition, under commission by Lower Saxony and Bavaria, KfW grants Tuition Fee Loans to finance tuition fees in these federal states. Furthermore, on behalf of the state of Bavaria, as of the 2011/2012 winter semester KfW began offering a programme for working professionals on part-time bachelor's degree courses.

From 2012, KfW will also be offering a global loan to fund Family Care Leave Loans. This is another huge step towards achieving a better work-life balance.

KfW Privatkundenbank's results

KfW Privatkundenbank achieved an excellent result once again in 2011, with total commitments of EUR 16.7 billion. That figure was 16 % down on the previous year's record level. This was due partly to increased eligibility criteria and reduced budget funds for energy-efficient refurbishment and energy-efficient construction, and partly to the reorientation and refocusing of the promotional programmes at the end of 2011.

KfW Privatkundenbank once again achieved a very good promotional result in 2011.

A total of EUR 14.6 billion was committed for housing. KfW financed almost 525,000 homes with these funds. Energy efficiency was improved in around 262,000 homes, of which 136,000 met the KfW Efficiency House standard. This reduced annual carbon emissions by around 567,000 tonnes.

Through its record commitments in the Age-appropriate Conversion Programme, KfW was able to support the conversion of more than 43,000 homes for improved accessibility. KfW's own Home Ownership and Housing Modernisation Programmes promoted the acquisition, construction and general modernisation of almost 200,000 homes, with commitments totalling EUR 7.6 billion. Around 71 % of the homes receiving support belong to private individuals, which is roughly the same as the figure for Germany's housing stock as a whole.

A new record volume of commitments of EUR 2.2 billion was achieved in the area of education, representing a year-on-year increase of more than 6 %. One reason for this was a further rise in demand for the KfW Student Loan. In 2011, a total of 22,290 such loans worth more than EUR 1 billion were granted. The Master BAföG programme supported around 56,000 people by providing EUR 270 million, while the Education Loan was taken up by more than 15,000 individuals. Due to a change in the Federal Education and Training Assistance Act (BAföG), the number of applications for the BAföG bank loan fell in 2011. Nevertheless almost 6000 students still received a low-interest bank loan. Furthermore, on behalf of Lower Saxony and Bavaria, KfW granted over 4,000 student loans to finance tuition fees in these federal states.

KfW's foundation business

On the basis of an agency agreement, the business of the Humanitarian Aid Foundation for Persons Infected with HIV through Blood Products has been conducted by KfW since 1995. The foundation was established by the Federal Government, the federal states, pharmaceutical companies and the German Red Cross. For humanitarian and social reasons, the foundation provides financial aid in the form of a monthly pension to individuals who have been directly or indirectly infected with HIV (human immunodeficiency virus) through blood products or who have AIDS as a result. Under special circumstances, the infected person's dependants may also receive support.

In 2011, KfW paid monthly pensions totalling around EUR 9.7 million from foundation funds to around 640 affected individuals.

KfW is the agent of a foundation that provides financial and social support to people who have been directly or indirectly infected with HIV through blood products.

Volume of promotional financing of the business area KfW Privatkundenbank as at 31 December 2011

Programmes	Promotional business volume 2010	Promotional business volume 2011	Purpose
	EUR in millions	EUR in millions	
KfW Privatkundenbank total	20,025	16,722	
Housing	17,973	14,553	
Energy-efficient Construction and Refurbishment	8,746	6,510	Energy-efficient construction and modernisation of residential buildings
Energy-Efficient Refurbishment	*5,092*	*2,897*	
Energy-Efficient Construction	*3,654*	*3,613*	
Age-appropriate Conversion	211	444	Conversion of residential accommodation to improve accessibility
KfW Home Ownership Programme	6,528	5,891	Acquisition and construction of owner-occupied property
Housing Modernisation	1,988	1,707	Modernisation of residential buildings
Education	2,052	2,169	
AFBG (Master BAföG)	260	269	Continuing professional development
BAföG government loans	662	754	Academic study
Education Loan	96	76	
BAföG bank loans	37	25	
KfW Student Loan	970	1,016	
Tuition fee loans	27	31	

Differences in the totals are due to rounding

Commitments by the business area KfW Privatkundenbank in the promotional area of housing in 2011, by federal state

Federal state	Number	Volume 2011 (EUR in millions)
North Rhine-Westphalia	62,300	3,183
Bavaria	44,266	2,470
Baden-Württemberg	40,687	2,220
Lower Saxony	27,780	1,290
Hesse	19,620	1,065
Schleswig-Holstein	14,183	741
Berlin	5,896	634
Rhineland-Palatinate	12,210	547
Saxony	7,025	508
Brandenburg	5,879	479
Hamburg	4,904	415
Saxony-Anhalt	3,674	277
Thuringia	3,764	239
Mecklenburg-Western Pomerania	3,184	231
Bremen	2,010	143
Saarland	3,186	110

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BUSINESS AREA KFW KOMMUNALBANK

KfW Kommunalbank promotes infrastructural investments by municipalities, municipal enterprises and social organisations. It is also responsible for KfW's global loan business with promotional institutions of the federal states, and for implementing various assignments commissioned by the Federal Government. In the past, infrastructure financing for municipalities, municipal enterprises and social organisations primarily involved funding general investments in municipal and social infrastructure at low interest rates. In 2011, there was also an increased focus on the promotion of environmental and climate protection measures. The promotional institutions of the federal states can implement KfW's promotional programmes through programme-based global loans, and may focus on specific states in the course of joint promotional activity. General funding is also available as an instrument providing the promotional institutions of the federal states with access to inexpensive KfW funding. This enables them to realise their statutory promotional objectives without having to furnish proof of how these funds are linked to specific measures.

Infrastructure promotion

Although the Infrastructure Investment Offensive expired at the end of 2010, it was important for KfW Kommunalbank to remain a reliable financing partner to the municipalities within the basic programmes. KfW's traditional promotion of infrastructure underwent some major developments as a result. The Investment Loans for Municipalities, which are granted directly, met with the high demand expected in 2011. Thanks to stepped-up marketing initiatives, the bank was able to commit loans worth EUR 2.5 billion in this promotional programme, which is subsidised from KfW's funds.

Demand in the on-lending programmes for municipal enterprises and social organisations also reached record levels – driven by a changed market environment and improved programme conditions. Investors' interest focused on long loan terms and on financing relatively large segments. For example, around EUR 550 million was committed in the Municipal Investment Programme and around EUR 550 million in the Social Investment Programme – a clear year-on-year increase overall.

Despite the discontinuation of the Unrestricted Municipal Loan at the end of 2010 (a temporary arrangement set up to run concurrently with the economic stimulus package, which in the previous year was worth approximately EUR 1.8 billion), and the expiry of the Infrastructure Investment Offensive (worth around EUR 1.3 billion in the previous year), a total of EUR 4.1 billion was committed in financial year 2011. The reason for the high volume was the very pleasing increases in KfW's basic programmes for infrastructure financing.

In future, KfW Kommunalbank will focus its promotional offerings more strongly on environmental and climate protection. The launch of the new Urban Energy-Efficient Rehabilitation programme family at the end of 2011 was the first step in this direction.

The commitments for the Municipal Investment and Social Investment Programmes increased considerably overall compared to the previous year.

Investors' interest focused on long loan terms.

Cooperation between KfW and the promotional institutions of the federal states increases funding levels and supports promotional activity by federal states.

Global loans to the promotional institutions of the federal states

KfW has been closely cooperating with the promotional institutions of the federal states in Germany for 14 years, concluding programme-based global loans with them on the basis of KfW promotional programmes. This bundles the financial support from KfW and the promotional institutions of federal states, which raises the level of funding and enables the respective federal state programmes to offer improved terms. It also means that investment measures in municipal infrastructure, SMEs and housing, and the energy-efficient rehabilitation of buildings, can be promoted and financed from a single source. This makes the German promotional landscape more transparent, while at the same time allowing customers to benefit from targeted low-interest support. In addition, KfW offers general funding to the promotional institutions of the federal states, the funds from which are used for joint statutory promotional tasks in the individual federal states.

Volume of promotional financing of the business area KfW Kommunalbank as at 31 December 2011

Programmes	Promotional business volume 2010[1]	2011	Purpose
	EUR in millions	EUR in millions	
KfW Kommunalbank total	15,787	11,798	
Infrastructure	6,137	4,148	
KfW Investment Loans for Municipalities (IKK, IKK flex)	1,925	2,482	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	1,292	57	
Social Investment	704	553	
Municipal Investment	349	938	
Energy-Efficient Refurbishment – Municipalities	96	92	Energy-efficient refurbishment of schools, school gymnasiums and swimming pools, children's day-care centres and buildings for work with children and young people
Social Investment– Energy-Saving Building Refurbishment	18	27	
Unrestricted Municipal Loan	1,753	0	Investments in municipal and social infrastructure (unrestricted)
Financial guarantees	-	–	Financial guarantees to municipalities
Global loans	9,650	7,650	
General funding of the promotional institutions of the federal states	9,150	7,650	Global loans to fund the promotional institutions of the federal states
Global loans to commercial banks (domestic)	100	0	Global loans to promotional and commercial banks
Global loans Europe (western)	60	0	
Global loans Europe (central and eastern)	340	0	

Differences in the totals are due to rounding

1) The volume of contracts is shown in the case of general funding of the promotional institutions of the federal states and global loans Europe.

Infrastructure financing commitments by the business area KfW Kommunalbank in 2011, by federal state

Federal state	Number	Volume 2011 (EUR in millions)
Berlin	14	766
Bavaria	582	699
Baden-Württemberg	547	591
North Rhine-Westphalia	362	497
Hamburg	13	467
Lower Saxony	213	295
Hesse	177	137
Bremen	9	124
Schleswig-Holstein	125	102
Saxony	116	93
Rhineland-Palatinate	86	85
Mecklenburg-Western Pomerania	48	71
Thuringia	53	65
Saxony-Anhalt	39	63
Brandenburg	38	54
Saarland	10	38

(Volume of infrastructure financing commitments excluding general funding of the promotional institutions of the federal states)

To access and analyse KfW's promotional statistics online, go to: www.kfw.de/foerderreport.

CAPITAL MARKET-BASED PRODUCTS AND SECURITISATIONS

The area of capital market-based products and securitisations ensures medium to long-term liquidity for commercial enterprises through a variety of instruments. In addition to securitisation products, it also offers global loans and the Refinancing of Export Loans Covered by Federal Guarantees Programme.

KfW will continue to invest in securitisations and other collateralised capital market products in 2012 in order to promote the provision of long-term financing for commercial enterprises.

Securitisation

The European securitisation markets were influenced by a worsening sovereign debt crisis in 2011, as well as a continuation of the tense refinancing and equity situation in the financial sector.

The German securitisation market, which is relatively small in terms of economic output, held up well in this difficult environment. With an issue volume similar to that of the previous year at around EUR 13 billion, KfW primarily financed receivables from the automotive sector as well as commercial leasing receivables and SME loans. Around two thirds of this volume was placed with investors – a relatively high proportion. The remaining third was structured for repo transactions with the European Central Bank.

The German securitisation market has largely performed well over recent years. A large proportion of the securitised portfolio reports only small losses. These are often actually below expectations. This is chiefly because German securitisations, in contrast to US sub-prime securitisations, are based on solid lending – for example from the aforementioned asset classes.

In accordance with its promotional mandate, in 2011 KfW invested a total of around EUR 500 million in securitisation transactions in the areas of commercial enterprises and leasing, thereby supporting the long-term funding of commercial enterprises.

Concerning the requirement for medium and long-term refinancing for banks, KfW assumes that all forms of collateralised refinancing for banks will continue to grow in importance in the next few years. Developments are currently unfolding in this context, with a new capital market product based on SME loans being introduced in addition to the traditional securitisation products.

Despite positive signals, the securitisation market is set to retain a high degree of uncertainty and face increasingly restrictive regulatory requirements in 2012. KfW will continue to invest in securitisations and other collateralised capital market products in order to promote the provision of long-term financings for commercial enterprises. In addition, it will continue to be involved in initiatives to improve the quality of the securitisation market.

Capital market-based products

In the capital market-based products segment, KfW provides a refinancing programme for export loans covered by federal guarantees, and special global loans for various funding segments. KfW provides interested banks with long-term funds for refinancing export loans through the **programme for Refinancing Export Loans covered by Federal Guarantees.** This programme aims to make long-term financing of exports easier for the German economy. In 2011, it was able to provide the export economy with financing worth around EUR 650 million in a very volatile market environment, with demand being very high particularly for refinancing in foreign currencies. Around 50 % of the financings were denominated in US or Canadian dollars. KfW will also continue the programme in 2012.

Following a reorientation of the **global loan programmes** in recent years, in 2012 KfW will primarily be providing global loans for European environmental projects to achieve the EU's climate protection targets ("20-20-20 targets"), and global loans for German leasing finance.

The Programme for Refinancing Export Loans Covered by Federal Guarantees is in high demand. Additional global loans for European environmental projects and German leasing finance will be provided in 2012.

GRADUAL IMPLEMENTATION OF THE MARKETING AGENDA

KfW is in the process of realigning and expanding its marketing activities. As part of this process, we further modernised our information and advisory services in 2011. The marketing agenda, which will focus even more strongly on the needs of our customers and partners, will be implemented in stages over the next few years.

Stronger focus on customer-oriented online offering

The new website will make our promotional offering transparent and provide users with the information they need.

KfW Bankengruppe's redesigned website underlines the fact that we see ourselves as a modern promotional bank which focuses on the needs of its customers and target groups. The modern website is designed to make our promotional offering transparent and provide customers with the information they need. KfW's website was already restructured and large parts of it were revised in 2010. Special sections were created for specific target groups such as tax advisers, architects and civil engineers – as well as for advisors to professional associations and management consultants, who are important multipliers for KfW's promotional programmes.

Redesigned web portal for the KfW Student Loan

One important topic in 2011 was the relaunch of the online loan portal for Study and Work. The KfW Student Loan is a core product of the bank that was introduced as a nationwide offer in 2006 and is intended to enable all qualified school leavers to study at university regardless of whether or not they receive financial support from their parents. The KfW Student Loan has now established itself as an instrument for financing individual students in Germany. KfW issued the 100,000th loan in September 2011. The new loan portal gives customers direct access to applications and, in addition to a customer-friendly user guide, provides further online banking functions.

Pleasing level of online traffic

Heavy traffic proves the need for online information and tools.

The Internet is important, because it is the main information medium for our customers and partners. This is clearly shown by the number of hits the KfW website had in 2011; there were a total of around 10.2 million visits and around 73.6 million page views. Approximately 50 million of these page views were for the domestic promotional business information section. The number of hits for online tools such as repayment calculators (5.8 million page views) or the terms viewer (3 million page views) also show that there is a need for a well designed online offering, and that customers and partners derive great benefit from it. There is also demand for online grant applications, as evidenced by 280,000 page views just for the Energy-Efficient Refurbishment – Investment Grant, Energy-Efficient Refurbishment – Construction Monitoring and Age-appropriate Conversion – Grant pages.

The “new” Advisors' Forum

The Advisors' Forum is a self-contained area where sales and business partners can access advertising and information material, search the document archive and obtain information on impending changes to the promotional programmes. The reorientation of the Advisors' Forum involved a redesign of the layout as well as a revision and expansion of the information available. An improved menu and new functions also make the Advisors' Forum more user friendly.

Marketing measures in 2011

In 2011 we used marketing campaigns to advertise our range of products for the energy-efficient refurbishment of residential properties and municipal institutions, and the funding we provide under the Age-appropriate Conversion Programme. We did this to make our target groups more aware of the particularly attractive loan and grant offerings available to them. In the commercial sector we placed the latest product developments in start-up financing, and promotion of the introduction of innovative processes and services through the ERP Innovation Programme, centre stage.

In addition to our traditional online marketing in media for specific target groups, we also set up microsites on specific issues and optimised these through search engine marketing. This makes it easier for users to obtain an overview of KfW's promotional offering, thereby considerably increasing our transparency and making KfW much more customer friendly. Interactive graphics on complex topics, such as financing investment in energy-efficient street lighting, help to put complex content across in a simple manner. Films are provided to illustrate best practices in promoted investments. We will also be further modernising our information and advisory services by using advice tools.

Improved product information

Our sales partners want product information that is clearly structured, tailored to target groups and clearly points out the benefits for customers. We created the new programme fact files and redesigned the programme guides on the basis of proposals and suggestions we received from numerous representatives of Landesbanks, cooperative banks and private banks. The new programme fact files now offer very concise programme information on a single sheet, and are also specially designed to be passed on to end clients.

Customer satisfaction is a high priority

Gearing our service offering to the needs of our customers is very important here at KfW. Since mid-2011 we have therefore been polling a representative random monthly sample of KfW end borrowers or grant recipients shortly after their acceptance, to see how satisfied they are with KfW's product, application processes and informational services.

The overall satisfaction of new KfW customers progressed from “good” to “very good” in the second half of 2011, surpassing the industry average. Customers gave a particularly positive rating to the Service area, which is primarily represented by KfW's info centre. Its users were impressed by the friendliness of the staff, the expert advice they received, and the accessibility. Previous assessments have demonstrated that customer service areas have a varying degree of influence on overall satisfaction. Key success factors for KfW are the terms of its promotional programmes (often the favourable interest rates), as well as the quick and easy application process.

Personal consultation adds value to customer support

Personal consultation is an important part of KfW's comprehensive information and advisory service package for customer support. The info centres in particular make KfW's promotional offering transparent. They are directly accessible, and offer customers vital assistance with general questions on programmes and products, as well as on specific financing issues. KfW helps its sales partners give the right advice by providing them with this information.

The 800,000 telephone and written enquiries KfW received in 2011 provide an impressive demonstration of what our customers need. Broken down by topic, 35 % of the customer requests received by the info centres concerned the promotional offering in the housing sector, 45 % education, and 20 % the offering for start-ups and enterprises.

KfW also uses trade fairs and events as a platform for informing customers and establishing contact with them. In 2011, KfW financing experts presented the promotional offerings at 32 regional and six national trade fairs, as well as at around 380 information events across Germany. The result was positive; they got in touch with around 25,400 interested parties. The advisors regularly participate in comprehensive training and coaching measures, to ensure that the advisory services they provide are of high quality.

Customer and business partner feedback is a key indicator of the development of our financing programmes and service offering. Our complaints processing procedures were restructured in 2011 as part of KfW's quality management measures. These procedures are based on modern standards for banks and service companies, and accord top priority to addressing customer cases individually and with a focus on solutions.

Support for sales partners a key factor

KfW's key account management section deals directly with our sales partners, supporting them continuously in their activities. This extensive support service includes coordinating informational events, dealing with general enquiries and other matters and liaising closely with sales partners. We thus offer our partners an array of opportunities to obtain the information they need, ranging from the info centre through the KfW Advisors' Forum to training measures, which can be arranged on an individual basis.

The marketing system primarily consists of banks and savings banks, which act as on-lending institutions, plus the promotional institutions of the federal states, which are also key partners. In education financing, KfW works with student unions and financial service providers, as well as credit institutions. For its advisory support grant programmes, KfW relies on a network of regional partners such as chambers of industry and commerce, chambers of trades and crafts as well as energy agencies, which are another important point of contact for customers.

An analysis of the purchase process has shown that financial brokers are also playing an increasingly important role in the sale of KfW promotional products. As the major financial brokerage companies have a large market share, for housing finance in particular, our key account management team have stepped up their communication and collaboration with this sales partner group, again focusing on close personal support.

Intensive support for sales partners is essential in order to ensure long-term sales success for KfW. Our key account managers provided professional support in around 6,300 cases last year. As well as providing a channel of communication for existing sales partners, these staff also play a significant role in the acquisition and accreditation of new sales partners.

Offerings for advisors, associations and chambers expanded

Many associations and chambers, as well as their members, value KfW's promotional programmes. Our key account management services for multipliers therefore include close support for commercial, housing and municipal associations and chambers, as well as for advisors.

In 2011, extensive surveys on KfW's promotional programmes were carried out among members of chambers and associations such as the Federal Chamber of German Architects (BAK), the German Association of Tax Advisers (DStV), the Federal Chamber of Engineers and the Association of German Property Managers. Based on the results of these surveys, web pages containing information tailored precisely to these target groups were developed and placed under "Meine KfW" (currently in German only). Furthermore, we developed newsletters for associations, fact sheets on specific topics and practical training sessions in order to meet the information needs of these groups even more effectively.

In 2011 KfW undertook extensive mailing campaigns and sent out USB sticks developed in-house, enabling the bank to provide 100,000 advisors with information on KfW's promotional programmes. In collaboration with selected associations such as the Association of Municipal Enterprises, the German Association of Energy and Water Industries, the Federal Association of Non-statutory Welfare Services (BAGFW), and the Catholic Housing Service (KSD), magazines featuring examples of members' successful financing were published and sent to all members.

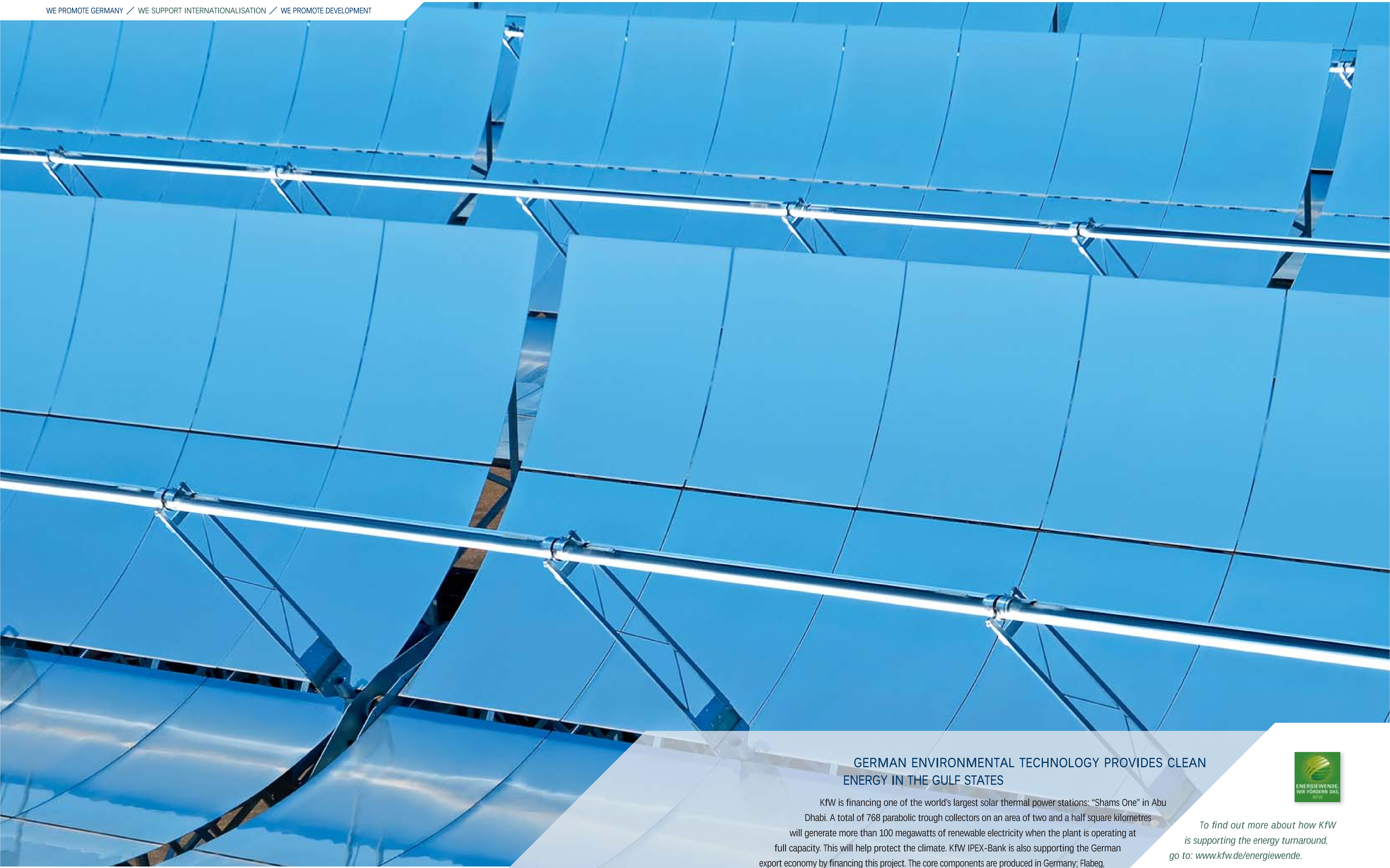
A number of medium-term collaborations with the media were concluded in 2011 in order to consolidate cooperation with major associations and chambers in the context of the energy turnaround. Further highlights of 2011 included the personal contacts made at a variety of events – such as the tradesman's forum, the housing breakfast or financial advisor day –, the expansion of existing online platforms such as the "next change" successor portal, and the start-up workshop for Germany.

Successful sales support through the new KfW Academy

Together with the chambers and associations, the KfW Academy, which charges for its services, systematically targeted architects, civil engineers, and real estate, financial and tax advisors as part of its key account management for multipliers. The 15 events, which attracted more than 600 attendees, focused on issues such as energy-efficient construction and refurbishment, age-appropriate conversion and financing businesses in the start-up, growth and succession stages. The new approach of having external experts report on their practical experience enabled participants to engage in close dialogue with the advisors on the KfW promotional programmes. In cooperation with DATEV, online seminars on KfW's housing programmes were held for the first time in 2011. Due to the highly positive feedback received we will be continuing and expanding the KfW Academy's events and online seminars.

WE SUPPORT INTERNATIONALISATION

In the harsh wind of globalisation, domestic industry needs a reliable financing partner in order to stay on course. KfW IPEX-Bank provides the German and European export industries with solutions tailored to their individual business needs. Its in-depth sectoral knowledge and structuring expertise help customers secure an outstandingly competitive international market position.



GERMAN ENVIRONMENTAL TECHNOLOGY PROVIDES CLEAN ENERGY IN THE GULF STATES

KfW is financing one of the world's largest solar thermal power stations: "Shams One" in Abu Dhabi. A total of 768 parabolic trough collectors on an area of two and a half square kilometres will generate more than 100 megawatts of renewable electricity when the plant is operating at full capacity. This will help protect the climate. KfW IPEX-Bank is also supporting the German export economy by financing this project. The core components are produced in Germany; Flabeg, a medium-sized company, is providing the mirrors, Schott AG the absorber tubes and MAN Diesel & Turbo the turbines.

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

AT A GLANCE: EXPORT AND PROJECT FINANCE IN 2011

Within KfW Bankengruppe, KfW IPEX-Bank is responsible for international export and project finance. Its responsibility to provide financing in the interests of the German and European economies, which means lending to businesses ranging from medium-sized enterprises to major corporations, is derived from KfW Bankengruppe's legal mandate. Its work focuses on providing medium and long-term financing to support the export economy, realising environmental and climate protection projects, financing transport and infrastructure projects, and taking measures to secure the supply of raw materials to German industry.

In the Canadian province of Quebec, 126 wind turbines made in Germany will be generating renewable energy.

Green electricity for Canada

In the Canadian province of Quebec, an enormous wind farm, "Seigneurie de Beaupré", is being developed to generate renewable energy. A total of 126 wind turbines with a generating capacity of 271.8 megawatts when the plant is operating at full strength will produce enough power for 150,000 typical homes in the region. The wind turbines are being delivered, erected and commissioned by the German company, Enercon, one of the world's most successful manufacturers in this industry. The family-run medium-sized business is also taking on the long-term maintenance and upkeep of the plant, which will be connected to the grid at the end of 2013. As part of a consortium with seven international banks, KfW IPEX-Bank is providing around CAD 725 million (approximately EUR 521 million) in funding and will assume the leading roles as documentation bank, technical bank and Euler Hermes agent.

A ship for international offshore installations

The large offshore installation ships built by the P+S shipyards, and launched from Stralsund for deployment worldwide, safeguard jobs in Germany. This shipbuilder, based in eastern Germany, has also secured an important order from South East Asia. P+S are now building a special vessel for a Singapore shipping company, which will be used for development and installation work at deep-sea oil and gas fields. This type of ship can also exploit its strength in building tidal power plants and offshore wind farms. It will be a multifunctional ship with three powerful cranes, two of them with a lifting capacity of 400 tonnes each, a stern ramp for loading from land vehicles and a docking facility for loading from floating vessels. The new order will enable P+S shipyards to expand its market position in this shipping segment. KfW IPEX-Bank is supporting the company, which is steeped in tradition, in developing its forward-looking focus on specially designed vessels. By providing the company with a complex financing solution, the bank is underlining its role as an important partner to the German shipbuilding industry. The total lending volume is EUR 95 million and is covered by Euler Hermes.

Protecting the climate through highly efficient power plant technology

KfW IPEX-Bank is participating in the financing of the new IPP Qurayyah power station in the Kingdom of Saudi Arabia. With a generating capacity of approximately four gigawatts, one of the largest and most modern combined cycle power plants is under construction in the Gulf.

Highly efficient Siemens gas turbines at the heart of the plant will ensure a considerable reduction in carbon emissions. A total of USD 2.8 billion (approximately EUR 2 billion) is being invested in the plant's construction.

As part of a consortium financing solution provided by Saudi Arabian and international banks, and involving several export insurers, KfW IPEX-Bank is contributing almost EUR 100 million to the total volume of project financing through a loan covered by Euler Hermes. This tranche serves to finance German suppliers who are providing some of the gas and steam turbines. The exporters will benefit from the Federal Government's ERP Export Financing Programme, which offers attractive conditions based on the Commercial Interest Reference Rate (CIRR). For Siemens and its suppliers in the SME sector, this transaction is another important step in marketing key German technology in the up-and-coming economies of the Gulf.

Airbus aircraft finance for the global market

The financing of four new Airbus A320-200 aircraft – three for the Asian leasing company BOC Aviation and one for the US-based Air Lease Corporation – as well as two new A330-200s for the US airline Hawaiian Airlines, is just a small part of KfW IPEX-Bank's successful activity in aircraft financing. The bank is one of the world's largest special financiers in the aviation industry, and supports its clients as a reliable partner at all stages of the market cycle. An example of this is the long-term collaboration with European aircraft manufacturer Airbus, whose production locations include Hamburg and Toulouse. The clients of KfW IPEX-Bank include over 100 passenger, freight and charter airlines, and shipping and leasing companies. The bank places particular emphasis on financing modern aircraft with low fuel consumption. These represent good security for financing as they lose considerably less value than older aircraft in the event of an economic downturn.

Key German technology provides high efficiency and reduced carbon emissions in modern combined cycle power plants.

In aircraft financing KfW IPEX-Bank focuses on modern jets with low fuel consumption.

KFW IPEX-BANK – WE SUPPORT INTERNATIONALISATION

As part of KfW Bankengruppe and responsible for the Export and Project Finance business area, KfW IPEX-Bank has been a reliable partner to the German and European economies for almost 60 years. KfW IPEX-Bank successfully promotes the competitiveness and internationalisation of companies operating globally – from larger SMEs to major corporations. The Frankfurt-based specialist financier focuses on providing medium and long-term financing to support the export economy, realising environmental and climate protection projects, funding transport and infrastructure projects, and securing the supply of raw materials in Germany.

Financing large projects also gives a major boost to German SMEs.

KfW IPEX-Bank supports projects to ensure the supply of raw materials to German industry.

Economic growth and prosperity are associated with a strong export sector – both in Germany and in Europe as a whole. Supporting this cornerstone of the economy with a suitable finance offering is the task of KfW IPEX-Bank, enabling companies to maintain their market position amid global competition and thus securing jobs and incomes in Germany and Europe.

Domestic SMEs benefit directly from this business model – they have often achieved a leading position in international markets, and produce and market their products worldwide. And there are indirect benefits too. As suppliers to multinational corporations, SMEs play a major role in value creation; in German shipbuilding, for example, the contribution of SMEs stands at over 70 %. Financing major projects therefore also helps to support German SMEs.

Germany is a high-tech country; however it is poor in raw material deposits and reliant on imports. These are the basis for domestic production and employment, for example in electromobility, in information and communications technology, and in the transformation of the energy supply system. Producers, traders and buyers of raw materials, whose activities are key to supplying German industry, therefore number among the long-term business partners and financing clients of KfW IPEX-Bank.

Global economic integration requires a permanent exchange of intermediate and final goods and services. The global integration of markets therefore requires the continuous development of infrastructure and the appropriate means of transport. Loans from KfW IPEX-Bank support the development of road, rail, energy and data networks, and finance investments in ships, rail vehicles and aircraft. The bank also grants loans for social infrastructure development, as well as for public-private partnership (PPP) projects – including the construction and modernisation of hospitals, schools and administrative buildings.

Promoting energy efficiency and developing renewable energies are core components of the German government's energy strategy, as is the case in many other countries too.

> Modernising conventional energy generation and harnessing the potential of renewable sources is an environmental imperative that also makes economic sense and is strategically important for the future.

European and especially German industry are world leaders in energy technology. Tailored financing solutions from KfW IPEX-Bank help them to remain competitive and continue marketing their expertise on the international stage. The bank's structuring expertise, knowledge of the relevant industries and regional presence in important growth markets leave it excellently placed to bolster the position of the German and European economies in these industries and ensure their long-term market success, while also protecting the climate.

Stable demand for export and project finance

Following a good year in 2010, the world economy weakened considerably in 2011. Growth remained positive and was driven by emerging markets, although momentum declined as the year continued. The fragile situation on the financial markets, weak US growth and ongoing structural and debt problems in the euro area all had a negative impact on Germany's real economy, particularly in the second half of the year, although it remained stable overall. Financing from European lending banks remained subject to restrictions resulting from the financial and government debt crisis, balance sheet adjustment and the forthcoming Basel III requirements.

All in all, global demand for machinery, equipment and transport vehicles from Germany and Europe remained stable in 2011, despite these developments. In a growing number of cases, however, the demand for financing was met with limited supply.

KfW IPEX-Bank: positive development of new business

In 2011, KfW IPEX-Bank fully demonstrated the strength of its business model, which focuses on the key sectors of the domestic economy. In the market environment described, the bank was a reliable partner to the export economy, and a financing partner for investments in infrastructure and transport, environmental and climate protection and raw materials supply projects in Germany.

The volume of new commitments for 2011 was EUR 13.4 billion – EUR 2.0 billion of which involved loans to refinance banks from the CIRR ship financing. This was EUR 4.1 billion higher than the previous year's figure.

New commitments by business sector

KfW IPEX-Bank is one of the world's leading providers of international export and project finance. The bank's job is to support German and European companies as they operate in international markets, and to maintain and increase their competitiveness by providing them with tailored financing solutions.

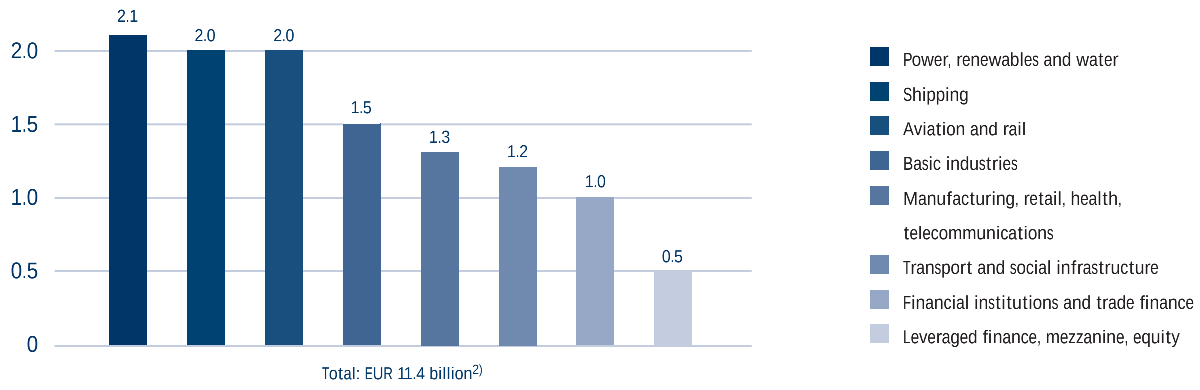
KfW IPEX-Bank supports German and European companies as they operate in international markets.

KfW IPEX-Bank has proven expertise in these markets and in key economic sectors. This includes the basic industries, manufacturing industries, retail, health and telecommunications, as well as power, renewables and water. In transport and industry its expertise is concentrated in the shipping, rail and aviation sectors, as well as transport and social infrastructure. KfW IPEX-Bank is one of the world's leading providers of financing, particularly for ships, rail vehicles and aircraft, as well as for the basic industries.

The bank has proven industry and market expertise in key economic sectors.

All business sectors of KfW IPEX-Bank made a positive contribution to the overall result in 2011. The power, renewables and water sector remains one of the most important drivers of growth at EUR 2.1 billion. The commitments in the shipping, aviation and rail sectors also contributed to the excellent result at EUR 2.0 billion each.

New commitments by business sector (EUR in billions)[1)]



1) Excluding bank refinancing from the shipping CIRR
2) Differences in the totals are due to rounding

KfW IPEX-Bank has a local presence in the key growth markets for the German and European economies.

Regional presence on the world's markets

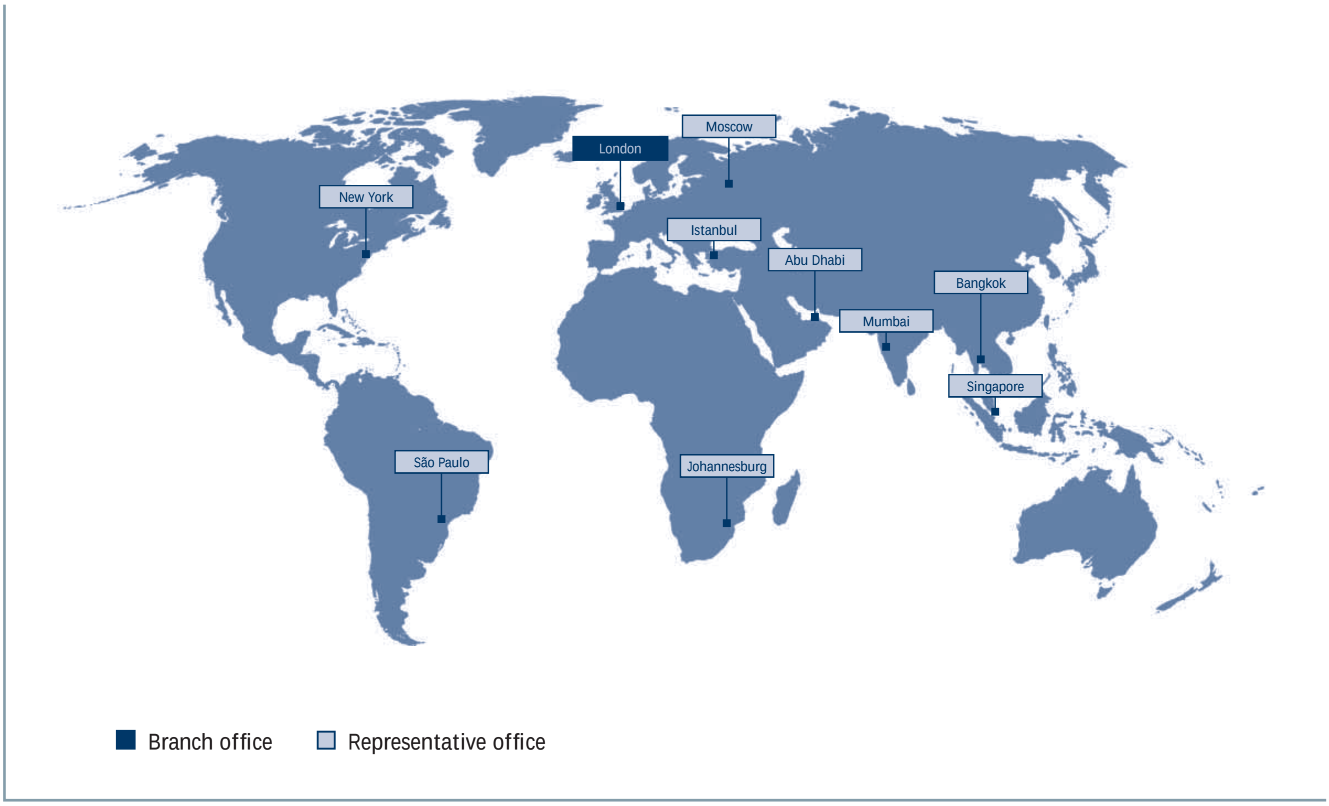
All over the world, when goods and services originate from Germany or Europe this is seen as a sign of quality and reliability. Turning this potential into growth and supporting companies as they export both to industrialised countries and to emerging markets is the mission of KfW IPEX-Bank, which is responsible for the Export and Project Finance business area. Its regional focus is on the key growth markets for the German and European economies, both for exports and for direct investment. The bank also supports internationally oriented companies through investment and acquisition financing in Germany.

Due to its extensive knowledge of regional markets and its many years of experience in structuring complex export and investment plans, the bank makes a point of operating in markets where access to finance is often difficult.

To support its international activities, KfW IPEX-Bank has representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York, São Paulo and Singapore, and a branch office in London. Due to the growing importance of the Asian market, KfW IPEX-Bank opened a representative office in Singapore in 2011.

Overall, new business activities in developing and transition countries remain in focus. KfW IPEX-Bank's customers see good sales opportunities and future prospects in these markets.

KfW IPEX-Bank abroad



In 2011, 28 % (EUR 3.2 billion) of new loan commitments were in Germany, 35 % (EUR 4.1 billion) were in the rest of Europe and 37 % (EUR 4.2 billion) were in countries outside Europe. The proportion of new business in emerging markets, which has now risen to 28 %, underlines their major relevance for the export sector. These markets have shown themselves to be crisis-proof drivers of real economic growth. German firms will be expanding their businesses outside Europe and generating more new business – KfW IPEX-Bank, with its long-term approach, will be supporting them in this.

Sustainability guidelines

KfW IPEX-Bank takes responsibility. As a finance provider, it also aims to support projects and export plans that have a positive impact on the environment and climate.

The basis for its environmental and social assessment are the environmental guidelines now in place for more than eleven years and which have been expanded into sustainability guidelines. In view of the global orientation of its business and the international ecological, social and economic responsibility this entails, KfW IPEX-Bank joined the Equator Principles Financial Institutions (EPFI) in 2008.

The so-called Equator banks, which now number 70, are in constant dialogue on the continued development of the highly ambitious standards they advocate. KfW IPEX-Bank is an active participant in this dialogue.

Projects and export plans with a positive impact on the environment and climate receive support.

Every project is reviewed for its environmental and social impacts in the target country.

In-house experts assess the technical risks of the financing measures.

Environmental and social impact assessment in export and project finance

Parts of the environmental and social guidelines that KfW IPEX-Bank has set itself go beyond the standards required by the Equator banks. For example, every individual loan application is assigned to category A, B or C based on an assessment of its environmental and social aspects. Category A is for projects that could have considerable, wide-ranging and to some extent irreversible environmental and social impacts. This would include for instance projects with a major, invasive impact on the ecosystem, such as raw materials projects or dams. Category B is for projects that have more limited environmental and social impacts and are usually controllable by current technology; this applies to many industrial projects. Projects with negligible or no negative environmental or social impacts are classified under category C. Projects to be implemented in an EU country or another OECD country are exempted from in-depth assessment. It is assumed that these countries have established environmental and social approval and monitoring practices comparable to Germany's.

KfW IPEX-Bank calls in-house technical experts in to assess the risks of a project. The experts perform a professional technical assessment of the financing measure. KfW IPEX-Bank then only grants financing to the cases it assesses in depth if the internationally accepted environmental and social standards, or in the case of project financing the Equator Principles, have been complied with.

Of the loan agreements concluded in non-OECD countries in 2011, nine were in category A, another nine in category B and 79 in category C.

Loans of EUR 1.7 billion were granted for investments in environmental and climate protection in 2011, which was equivalent to 12.8 % of the bank's total new commitment volume. These financings focussed on investments in power generation from renewable energy sources.

The bank also financed thermal power plants, which are highly efficient due to the use of modern technology, and environmentally friendly transport, such as rail vehicles. This underlines the bank's sense of responsibility and commitment to improving ecological living conditions.

In-house environmental protection through emission avoidance

KfW IPEX-Bank also exercises its corporate social responsibility for the environment and sustainability through its in-house environmental protection measures. The 14-storey West Arcade office building that serves as KfW Bankengruppe's Frankfurt headquarters is one of the most energy-efficient office buildings in the world.

It was named “Best Tall Building Worldwide” in 2011 by the Council on Tall Buildings and Urban Habitat at the Illinois Institute of Technology in Chicago. The building's design, technical innovation and energy efficiency as well as its impact on the city and its residents were all assessed.

The West Arcade’s primary energy consumption of 98 kWh/m2 per year is well below existing standard levels. The building is surrounded by a double façade that uses the wind to create a pressure gradient, thus ensuring natural ventilation whatever the weather, as well as a high level of insulation and a good supply of natural light. Ground heat exchangers and the use of waste heat from the computer centre are further examples of the numerous measures that combine to achieve the building’s extraordinarily low energy consumption. Since 2006, KfW IPEX-Bank has used emissions certificates to offset the remaining emissions from operating its offices and all essential business travel, resulting in a carbon footprint of zero.

Economic and financial results for 2011

In 2011 KfW IPEX-Bank's Export and Project Finance business area contributed EUR 623 million to KfW's consolidated profit, a figure well above average in comparison to previous years. This business area thus remains a major source of income for KfW Bankengruppe and helps actively secure KfW's long-term 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 all market transactions involving export and project finance.

The volume of lending for the Export and Project Finance business area amounted to EUR 60.9 billion as at 31 December 2011 (compared to the previous year’s figure of EUR 59.8 billion).

The operating result, which is largely determined by the net interest and commission income of EUR 754 million, after deduction of administrative expenses, amounts to an operating result before valuation of EUR 603 million. Due to the net reversal of risk provisions in the reporting year, the business area's income from ordinary activities before taxes on income totalled EUR 672 million.

The Export and Project Finance business area remains a major source of income for KfW Bankengruppe, and helps actively secure KfW's long-term promotional capacities.

KfW IPEX-Bank aims to strengthen its market position as a leading specialist financier.

Outlook for 2012: KfW IPEX-Bank is Germany's specialist financier.

A global economic slowdown is expected in 2012, with emerging markets possibly still retaining relatively strong economic momentum. The ongoing structural and debt problems in the euro area will also have a negative impact on the real economy in Germany and Europe. In this respect, the demand for exports from Germany and Europe, and for financing them, is likely to weaken. Due to the sovereign debt crisis and the financial crisis, banks will also continue to have refinancing difficulties. They will also continue to adjust their portfolio structures with a view to the Basel III requirements. Therefore, there will continue to be a selective offering of long-term financings in the banking market in 2012.

In this environment, KfW IPEX-Bank aims to strengthen its market position as a leading specialist financier.

The bank plans to continue its high level of commitment to energy and environmental projects in 2012. In order to secure the supply of raw materials in Germany, commitments in basic materials and trade and commodity finance will be increased slightly.

The bank is continuing new business in the asset finance area (ships, rail vehicles, aircraft) selectively at the previous level and with good collateral. The regional focus is on important markets for the German-European export industry, with support for clients being extended in countries outside Europe, especially emerging markets. The Export and Project Finance business area plans new business of EUR 12.6 billion (including CIRR ship refinancing) for 2012. Based on the forecast economic conditions, the bank anticipates that more support will be needed for existing commitments in 2012. This will be also the case particularly with respect to this part of the shipping portfolio due to the earnings situation in freight shipping, which has recently become problematic once again.

WE PROMOTE DEVELOPMENT

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

THE MOROCCAN SUN – A NEW SOURCE OF ENERGY

In the past, Morocco has been almost entirely dependent on importing fossil fuels to meet its energy requirements – and has had to invest valuable foreign currency in order to do so. This is set to change. The country's first major solar thermal power station is to be built in Ouarzazate. It is designed to generate electricity for around 320,000 people, and thereby avoid around 230,000 tonnes of CO_2 a year. The solar power station will initially generate 160 megawatts of electricity and later 500 megawatts. On behalf of the Federal Government, KfW Entwicklungsbank is providing EUR 115 million in funding for construction of the power station.

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

DEG BOOSTS THE DEVELOPMENT OF WIND FARMS

Electricity from renewable sources is becoming increasingly important in Latin America's economic development. Experienced project developers from Germany are also in demand there. In order to promote wind energy in Latin America, DEG is providing the German SoWiTec Group with two quasi-equity loans amounting to EUR 6 million. This money is for the development of wind projects in Argentina, Brazil, Chile, Mexico, Peru and Uruguay. Nine further wind farms with a total capacity of up to 1,000 MW are planned as part of the cooperation project with DEG.

To find out more about how KfW is supporting the energy turnaround, go to: www.kfw.de/energiewende.

AT A GLANCE: PROMOTION OF DEVELOPING AND TRANSITION COUNTRIES IN 2011

In their partner countries, KfW Entwicklungsbank and DEG help reduce poverty sustainably, protect the environment and climate, and advance economic development. To achieve this, KfW funds the development of renewables such as wind power and geothermal energy. At the same time it helps ensure that the quality of people’s lives and basic service delivery are improved. On behalf of the Federal Government, KfW supports the construction of irrigation schemes, schools, hospitals, new roads and bridges.

The largest conservation area in the world – the KAZA region

Elephants wandering along the rivers, lions stretching out in the sun, monkeys jumping from tree to tree; numerous species of wild animal live in southern Africa. In the region where the borders of Angola, Botswana, Namibia, Zambia and Zimbabwe converge, the largest transfrontier conservation area on Earth is currently being created in the Kavango-Zambezi region (KAZA). It covers 440,000 km2, and is thus the size of Sweden. KfW Entwicklungsbank is funding the project on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) – the project’s largest donor, contributing EUR 20 million. The money is used, amongst other things, to finance wildlife management, development of the park's infrastructure and wildlife corridors. In addition, local residents are receiving support to develop tourism.

KAZA thus combines nature conservation with poverty reduction. Tourism is creating new jobs and income. The local people play an active part, organising themselves in conservation areas and participating in the realisation of the project. Local communities then share in the revenues. The money is being used for projects including the construction of schools, health centres and wells.

New foundation improves infrastructure in border regions

KfW Entwicklungsbank is taking a new and innovative approach to strengthening infrastructure in Pakistan, Afghanistan and Tajikistan's border regions, and developing and stabilising the region. In 2011, together with the Federal Foreign Office it set up a new foundation that promotes and finances the construction of bridges, roads, healthcare centres and markets. Some 1.5 million people who live in the remote mountainous regions are benefiting from this programme.

The Pakistan-Afghanistan-Tajikistan Regional Integration Programme (PATRIP) pools funds from various donors and cooperates with local organisations. Its employees mainly come from the region, are familiar with the local culture and mentality, and are well trained. Local people are also being extensively involved in planning the projects, in order to strengthen their self-reliance.

In the first phase in 2010, five large and 400 small measures were implemented in cooperation with the Aga Khan Development Network. In 2011 the Federal Foreign Office made around EUR 13.7 million available for projects in addition to the foundation capital of EUR 1.5 million. The PATRIP foundation is open to other international donors. In addition to Germany, Luxembourg also made a financial contribution to the foundation in 2011.

Support for young social entrepreneurs in India

Development efforts cannot succeed without private economic initiatives. For this reason, KfW Entwicklungsbank supports entrepreneurs who help reduce poverty and improve living conditions for disadvantaged communities. The Aavishkaar II participation fund supports local social entrepreneurs of this sort in India. KfW Entwicklungsbank is supporting the fund's expansion with its development expertise, and in 2011 contributed EUR 5 million of its own resources to the fund, which is to be endowed with a total of up to around EUR 88 million. In addition, KfW has entered into a trustee participation on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) worth EUR 5 million.

The Aavishkaar II fund supports around 25 Indian start-up companies by providing equity. The companies offer innovative and affordable products and services for the poor in under-served, mostly rural regions of India in the fields of health, water supply and sanitation, education, agricultural production and renewable energy supply. These social entrepreneurs not only achieve commensurate returns, the community also benefits from their involvement. For example, they ensure the supply of affordable basic healthcare and hygienic, properly functioning sanitary facilities in slums, and promote efficient farming and marketing methods in agriculture.

A good example of this is G.V. Meditech Ltd. This social enterprise, which operates in the Indian state of Uttar Pradesh, helps poorer sections of the population obtain medical treatment. It operates micro clinics and hospitals, where it employs a total of 66 doctors and 112 other staff. Another company cleans well water that has been contaminated with bacteria, and thus provides people in rural areas with safe and affordable drinking water. This means that there are fewer cases of illness caused by dirty water. The people, particularly the children, are healthier. The economic situation of families is improving.

KfW Carbon Fund: Emissions trading hampered by the financial crisis

Purchases of emission credits from climate protection projects fell short of expectations in 2011. Many companies in European emissions trading currently have more emission allowances than they need. In addition, demand for credits has fallen as a result of the financial crisis and fears of recession in Europe. The state of international climate negotiations is seen as uncertain, which is having a negative impact on trading.

In 2011, around 3.3 million emission credits with a total value of EUR 23.5 million were acquired from 13 projects in nine countries. Since it was set up the Carbon Fund has handled a total of around 40.5 million emission credits, thus mobilising approximately EUR 410 million of predominantly private-sector funds for climate protection projects.

The Carbon Fund, together with its partner institutions, is developing innovative approaches to promoting climate protection projects in partner countries. Budget funds from the Federal Government are frequently employed for this purpose. For instance, KfW set up the Future of the Carbon Market Foundation together with the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). KfW is also implementing a measure in Latin America on behalf of the European Commission.

The Carbon Fund also successfully continued three Federal Government mandates in 2011: the auction of 41 million EU Allowances at the Energy Exchange in Leipzig, the implementation of the Programme of Activities Support Centre Germany to promote innovative approaches to the Clean Development Mechanism (CDM), and carbon offsetting for business travel by members of the Federal Government and the Bundestag.

Risk capital for companies in developing countries

There is demand for equity investments and mezzanine financing from companies in developing countries, but little availability. This is why DEG is stepping up efforts to facilitate access to this sort of risk capital financing. It makes risk capital available to enterprises both directly and indirectly via financial intermediaries. It approved risk capital financing worth almost EUR 510 million in 2011 alone. This included around 30 equity investments in companies which, for example, construct or operate wind farms or hydroelectric power plants.

Promoting insurance cover

In developing countries in particular, people are exposed to many risks that can rapidly jeopardise their economic livelihoods, as they are unable to make up any losses on their own. Insurance can help minimise these risks. DEG is therefore committed to improving insurance cover in its partner countries. In 2011, it took an equity stake in several companies providing health and property insurance. In addition, it subscribed to the African Reinsurance Corporation's capital increase, having been a shareholder in the company since 2005. The company plans to expand its product range and its network of branch offices. Reinsurers such as Africa Re enable African primary insurers, which usually have small balance sheets, to accept more business using the same level of capital.

Helping companies become active abroad

DEG has been advising and financing German companies investing in developing countries since it was founded 50 years ago. In 2011, it supported more than 100 German SMEs that had decided to operate in a developing country. It offered long-term financing on market-oriented terms to companies primarily from the manufacturing sector, for example, for investments in China, El Salvador and Uruguay. It also advised and supported companies on measures to prepare for investment and made funding from the Federal Government available for this purpose. This included feasibility studies for investment projects.

Latin America – a focal point for German business

In 2011, KfW co-hosted a Latin America conference together with the German Association of Chambers of Commerce and Industry (DIHK) in order to highlight the huge economic potential of the continent and the market opportunities for German companies. Various workshops dealt with issues such as “climate change and environment” and “securing the supply of raw materials”. Among the countries presented, the focus was not just on Brazil and Mexico, but also on the up-and-coming Andean countries Colombia and Peru.

DEG and KfW IPEX-Bank, KfW's subsidiaries responsible for foreign business, planned and organised the event together with KfW Entwicklungsbank. The Latin America Initiative of German Business (LAI) was also involved as a partner. Almost 400 decision-makers from the spheres of business, politics and civil society attended the conference in Berlin.

KFW ENTWICKLUNGSBANK – A DEVELOPMENT POLICY-ADVISOR TO THE FEDERAL GOVERNMENT AND THE EUROPEAN UNION

KfW Entwicklungsbank finances, promotes and supports development projects all over the world on behalf of the Federal Government. It uses its many years of experience, its expertise and abilities to protect the environment and climate, reduce poverty, build peace and tackle global challenges. This is intended to benefit people in poorer regions of the world. KfW Entwicklungsbank promotes reforms and acts as a catalyst for development in developing countries. It works on projects and programmes on an equal footing with its partners, right through from the planning to the management stage.

KfW Entwicklungsbank supports the Federal Government in reducing poverty and mitigating climate change.

In international cooperation with developing and transition countries, KfW Entwicklungsbank implements the Federal Government's guidelines. The bank is responsible for Financial Cooperation (FC), and promotes global innovations and reforms in partner countries. In addition to the budget funds from the Federal Ministry for Economic Cooperation and Development (BMZ), KfW makes extensive use of funds that it raises on the capital market for the projects and programmes it supports. These funds raised by KfW itself, together with budget funds, can be reported as Germany's official development assistance. KfW Entwicklungsbank thus supports the Federal Government in meeting its international obligations to reduce poverty and mitigate climate change. This includes the political target of increasing the proportion of funding for development cooperation to 0.7 % of gross national income by 2015, without straining the federal budget. Through its engagement and by using its own funds, KfW thus helps increase Official Development Assistance (ODA).

More funds raised by KfW

KfW's own funds are mainly used in advanced developing and transition 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 the volume of funding and the effectiveness of German development cooperation. In turn, this means that more of the Federal Government's tight budget funds can be used as grants to benefit people in particularly poor developing countries, especially in sub-Saharan Africa.

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

KfW Entwicklungsbank provides the Federal Government with important advice on development-policy issues. It performs most of its work on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). Increasingly, though, KfW Entwicklungsbank is now also operating in the field of international cooperation on behalf of other federal ministries, such as the Federal Foreign Office, the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and the Federal Ministry of Education and Research (BMBF). A framework agreement for further cooperation was concluded with the Federal Foreign Office in 2011.

However, KfW is also cooperating to an increasing extent with EU institutions, particularly the European Commission and the European Investment Bank (EIB), as well as with other EU member states' development organisations and development banks. At the European level, in close consultation with the Federal Government it advocates innovative methods of development finance.

These include, for example, setting up and developing common European financing platforms. If European development and climate policy is to progress internationally, the European players will have to work in close cooperation with each other and pool their resources. At international level, KfW cooperates with other banks, donor institutions and multilateral institutions. The goal of permanently improving people's livelihoods in developing countries and protecting the climate is always central to these activities.

Core competencies: climate and environment, water, finances and energy

KfW Entwicklungsbank possesses internationally recognised expertise on all development policy issues. It combines the know-how of a bank with a clear focus on relevant matters. It has particular expertise in environmental and climate protection and in promoting the financial and water sectors.

Renewable energy use also plays an important role in climate protection. Renewable energy helps partner countries pursue a low-carbon path and mitigate global warming. Projects that promote renewable energies, such as wind, water and solar power, are very important particularly in developing countries, where rapid economic growth must often be managed so as to achieve a low-carbon approach. Projects and programmes for renewable energy accounted for commitments of no less than EUR 900 million in 2011.

KfW Entwicklungsbank supports not only projects involving its core competencies, but also programmes that help improve healthcare, education and rural development in partner countries. Vaccination campaigns and family planning receive just as much support as the construction of schools and teacher training. Irrigation programmes that help increase harvest yields and ensure food security are very important in rural regions. Development cannot succeed in partner countries without peaceful coexistence. Cooperation with fragile states is therefore becoming increasingly important. In these countries, KfW Entwicklungsbank provides targeted support for reconstruction, or for programmes that help prevent crisis and conflicts, and build peace.

Partnership on equal terms

KfW Entwicklungsbank operates globally, and is further expanding its international presence. It now has a network of more than 60 offices in Europe, Africa, Asia and Latin America in addition to its offices in Frankfurt and Berlin. These representative offices are employing an increasing number of staff. 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. This enables development projects to be closely coordinated with KfW's partners and other donor institutions on the ground. It also allows the progress made by the programmes promoted to be continually monitored and evaluated.

KfW's international presence allows close coordination of cooperation on the ground.

Responsibility for structuring these programmes always lies with an institution in the partner country. These are mostly ministries, government authorities and 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's relationships with its partners follow two fundamental principles. Firstly, the programmes promoted must be proposed by the partner country at government negotiations and be based on the partner country's own development strategy (the "alignment" principle). And secondly, the partner country must bear primary responsibility for planning and managing the projects and programmes (the "ownership" principle). However, KfW Entwicklungsbank appraises projects on behalf of the Federal Government to determine whether they are appropriate from a development policy perspective, and eligible for support. If they meet the criteria, KfW Entwicklungsbank experts will provide the partner with advice and practical help throughout the project, contributing their development expertise. 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

KfW Entwicklungsbank supports the transfer of knowledge and better utilisation of capacities in each partner country.

the end of the story. The project is not considered a success until an independent evaluation shows that it has improved the quality of people's lives or helped protect the climate.

Financing instruments made to measure

KfW Entwicklungsbank's financing instruments are tailored to each partner country's particular economic situation.

The financing instruments used by KfW Entwicklungsbank are geared to each partner country's particular economic situation. Programmes are supported as required 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 financial strength of the partner country, its development status, its foreign trade performance, the amount of debt and type of project. This enables financing to be tailored to requirements.

Programmes and projects in the least developed countries (LDCs) are financed through non-repayable grants from federal budget funds. More economically capable countries usually receive loans – especially development and promotional loans – on terms closer to the going market rate. Overall, KfW Entwicklungsbank deploys its financing instruments in order to promote and support its partner countries' own efforts.

The Federal Government also provides grants to advanced 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.

A leader in international climate protection

In 2011, KfW Entwicklungsbank's innovative promotional instruments and projects implemented on behalf of the Federal Government focussed on climate change mitigation and adaptation. The bank also further expanded its international environmental and climate portfolio. It implemented the Initiative for Climate and Environmental Protection on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), and was involved in the International Climate Initiative on behalf of the Federal Ministry for the Environment (BMU). Overall, KfW Entwicklungsbank provided a total of around EUR 2.7 billion for the area of environment and climate in 2011. That represents around 60% of its total promotional volume of more than EUR 4.5 billion.

The climate protection programmes that KfW Entwicklungsbank supports in numerous countries can help reduce greenhouse gas emissions; according to KfW's calculations, its new commitments in 2011 will save around 7.2 million tonnes of carbon dioxide emissions per annum over the next few years. KfW Entwicklungsbank's projects and programmes are helping protect around 64 million hectares of forest – an area twice the size of Germany.

Moreover, for environmental and climate protection KfW Entwicklungsbank is further developing modern financing instruments such as credit lines and fund solutions for renewable energies and energy efficiency or for setting up foundations, as well as other financial models for international forest conservation. In 2011, KfW Entwicklungsbank systematically expanded its portfolio for financing projects and programmes for climate change adaptation in Africa, Latin America and Asia, among others.

The Federal Industry for Economic Cooperation and Development (BMZ) and the Federal Ministry for the Environment (BMU) have mandated KfW and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to implement the German Climate Technology Initiative (DKTI). This initiative is designed to promote the use of innovative climate protection technologies in partner countries – also with a view to market opportunities for German companies. The German Climate Technology Initiative is financed from assets from the Federal Government's Energy and Climate Fund (EKF), which is funded from auction proceeds from EU emissions trading.

In order to further optimise the impact of the projects it promotes on climate protection, KfW has also established a comprehensive climate audit to complement the environmental and social impact analysis of projects.

At the UN Climate Summit in Durban in South Africa in December 2011, KfW Entwicklungsbank experts (who were part of the official German government delegation) advised on issues of international climate financing, and made their expertise available. The international community agreed on a package of measures for climate change mitigation and adaptation, as well as a roadmap for a global climate treaty. This is scheduled to be negotiated by 2015 and to come into force in 2020. All the signatory states will have obligations. The Green Climate Fund, which was agreed on at the summit before last in Cancun in Mexico, is also to be implemented and will support developing countries with climate change mitigation and adaptation. KfW is playing an advisory role in preparing the climate fund.

Development banks form a global network in 2011

These banks are pooling their resources in order to be able to achieve even more. KfW took a leading role when the chairpersons and managing directors of 19 development banks from Africa, Asia, Europe and Latin America founded the International Development Finance Club (IDFC) in Washington in September 2011. They elected Dr Ulrich Schröder, Chief Executive Officer of KfW Bankengruppe, as the club's first chairperson. The board of the IDFC includes the chief executive officers of the Development Bank of Southern Africa (DBSA), the Brazilian Banco Nacional de Desenvolvimento Econômico e Social (BNDES), the Latin American Cooperación Andina de Fomento (CAF) and the Japan International Cooperation Agency (JICA) as vice-chairpersons. By founding the IDFC, the banks are building upon their many years of successful cooperation and creating a new network.

The members of the IDFC have a proven track record of success, innovation and expertise in development finance in emerging and developing countries. They aim to use the new network to mutually benefit even more from their experiences, to jointly tap new fields of business and to tackle future issues, such as social development, financing green infrastructure and climate protection.

The development banks affirmed this aim at the UN Climate Change Conference in Durban, where the new network resolved to step up its support to poor countries in the battle against climate change. The IDFC announced that it would be leveraging the Green Climate Fund's funds.

KfW was one of the founders of the International Developing Finance Club (IDFC).

Commitments of KfW Entwicklungsbank in 2007–2011

	2011	2010	2009	2008	2007
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
KfW Entwicklungsbank					
FC grants	1,336	1,036	1,112	882	803
FC standard loans	145	179	230	351	277
FC development loans	1,713	2,142	878	1,033	579
budget funds	*134*	*215*	*106*	*213*	*130*
KfW funds	*1,579*	*1,927*	*772*	*821*	*448*
FC promotional loans	996	913	1,151	1,314	1,263
Delegated funds[1)]	343	183	111	68	80
Total FC	4,532	4,452	3,482	3,648	3,002
Memo item: Interest grants	163	209	100	90	37

Differences in the totals are due to rounding

[1)] Excluding intermediary funds in 2011 (EUR 73 million), 2010 (EUR 10 million), 2009 (EUR 233 million) and 2008 (EUR 33 million)

KfW Entwicklungsbank commitments by region in 2011

	Federal budget funds		Total commitments	
	EUR in millions	%	EUR in millions	%
Sub-Saharan Africa	626	39	874	19
Asia and Oceania	417	26	1,411	31
Europe and Caucasus	172	11	812	18
Latin America	134	8	535	12
North Africa and the Middle East	232	14	400	9
Supraregional	33	2	501	11
Total	1,614	100	4,532	100

Differences in the totals are due to rounding

The members agreed a “smart partnership” for this purpose, and intend to develop new financing instruments by the planned launch of the fund in two years' time. These will be designed to boost programmes for environmental and climate protection, forest conservation and technology transfer. The IDFC members have long made the battle against climate change an integral part of their development work. They are therefore well positioned to support the climate fund in providing climate finance to national and regional programmes and projects. It is envisaged that the IDFC will become even more effective, enabling developing and transition countries to implement their activities for climate change mitigation and adaptation more rapidly. The launch of the climate fund – a new central institution for international climate policy – had already been agreed on at the global climate conference in Cancun.

The next meeting of the chief executive officers will take place in Rio de Janeiro in June 2012 during the UN Rio+20 Conference.

Commitments increased yet again

The record volume of financing achieved in 2010 was surpassed by a small margin in 2011.

KfW Entwicklungsbank even succeeded in surpassing the record financing volume it achieved in 2010 by a small margin. In 2011, it provided more than EUR 4.5 billion for development programmes in Asia, Africa, Latin America and Europe. The previous year's total was just below EUR 4.5 billion.

In 2011, KfW Entwicklungsbank continued to provide the majority of its financial support from money it mobilised on the capital market. However, the amount of KfW's own funds employed for international development finance fell slightly, from EUR 2.8 billion in 2010 to EUR 2.6 billion in 2011. Around 60 % of the money KfW Entwicklungsbank employs on behalf of the Federal Government in developing and transition countries currently comes from KfW's own funds.

KfW was thus able to consolidate the use of its own funds at a high level even during the financial crisis. In this way, KfW Entwicklungsbank continues to support the Federal Government in meeting its international commitments and obligations to reduce poverty and mitigate climate change. Of the commitments made in 2011, 79 % are reported as Official Development Assistance (ODA).

The Federal Ministry for Economic Cooperation and Development (BMZ) remains KfW Entwicklungsbank's most important source of commissions, deploying budget funds of EUR 1.5 billion. However, the bank also operates on behalf of other federal ministries, such as the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), which deploys budget funds of EUR 53 million via KfW Entwicklungsbank. In 2011, KfW Entwicklungsbank implemented projects for the Federal Foreign Office with a commitment volume of EUR 14 million.

Commitments by region

KfW Entwicklungsbank promotes projects in Africa, Asia, Latin America and Europe. It deploys

Commitments by priority sector in 2010/2011

	2011		2010	
	EUR in millions	%	EUR in millions	%
Social infrastructure	1,392	31	939	21
Financial sector	1,130	25	784	18
Economic infrastructure	1,044	23	2,105	47
Production sector	180	4	185	4
Other	785	17	440	10
Total	4,532	100	4,452	100

Differences in the totals are due to rounding

most of its own funds in advanced developing and transition countries. This alleviates pressure on the Federal Government's budget resources, and allows these funds to be used to benefit particularly poor countries. At EUR 626 million, the lion's share of Federal Government budget funds once again went to sub-Saharan Africa. This high figure remained stable (the figure for 2010 was EUR 643 million). A total of EUR 874 million went to sub-Saharan Africa, a slight increase over the previous year (EUR 803 million).

Asia and Oceania received the second largest share of federal budget funds (EUR 417 million), the same amount as in the previous year. In terms of total commitments, the region again ranked first, with EUR 1.4 billion. In this part of the world, KfW Entwicklungsbank focuses on financing climate and environmental programmes. In Pakistan and Afghanistan, moreover, high priority is given to crisis and conflict prevention programmes, which received EUR 204 million in support.

A total of EUR 812 million was committed for projects and programmes in Europe and the Caucasus region – a slight decline on the previous year (EUR 967 million). EUR 172 million of this amount was Federal Government budget funds. Commitments for Latin America totalled EUR 535 million in 2011 (compared to the previous year's figure of EUR 422 million). EUR 134 million of this came from Federal Government budget funds, which was a considerable increase on the corresponding figure of EUR 112 million for 2010.

Funding for North Africa and the Middle East totalled EUR 400 million, which was similar to the previous year's figure. However, significantly more Federal Government budget funds were deployed. The total Federal Government budget funds rose from EUR 95 million to EUR 232 million. This clearly demonstrates the Federal Government's commitment to the region and to supporting the democratisation and transformation processes unfolding there.

KfW Entwicklungsbank's priority areas

In 2011, KfW Entwicklungsbank actively supported the improvement of people's lives in its partner countries. Its main objective was to help improve people's quality of life and provide them with basic services. Most of the promotional funds (EUR 1.4 billion) went to finance social infrastructure (compared to EUR 939 million in 2010). KfW Entwicklungsbank supports partner governments in supplying people with safe drinking water, and building schools and healthcare facilities. In education, support is also provided for further professional training for teachers, while in healthcare, an important focus is on family planning.

Promoting the financial sector has traditionally been a high priority for KfW Entwicklungsbank. In 2011, the second highest commitment volume of EUR 1.1 billion was again provided in this area (the previous year's figure was EUR 784 million). KfW Entwicklungsbank primarily supports microfinance institutions that also help small companies to implement their business ideas. This contributes to economic development in partner countries.

KfW Entwicklungsbank is committed, above all, to improving the quality of people's lives.

EUR 1 billion was committed to economic infrastructure. Most of these programmes focus on renewable energy use and more efficient – and thus also environmentally-friendly – energy consumption.

Disbursements

In 2011 KfW Entwicklungsbank paid out a total of EUR 3.3 billion for projects and programmes in its partner countries. Of this sum, EUR 1.6 billion came from federal budget funds. The total disbursed was thus around the level of the previous year.

Debt conversion, cancellation and restructuring

When developing and transition countries are heavily indebted, the Federal Government concludes debt conversion, cancellation and restructuring agreements with them. Such agreements are arranged with the international donor community through the Paris Club. KfW is involved on the German side.

Debts may be cancelled on the basis of debt conversion agreements if the governments in the partner countries use these funds to reduce poverty, strengthen the education and healthcare system or protect the environment and the climate.

In 2011, KfW Entwicklungsbank concluded new debt conversion agreements totalling EUR 79 million with Egypt, Indonesia, Jordan, Peru and Serbia. Germany also cancelled debts of partner countries in Africa, Asia and Latin America totalling EUR 118 million on the basis of previously concluded agreements, after the funds had been used for development programmes.

The Republic of Congo underwent the Heavily Indebted Poor Countries (HIPC) process in 2011. Outstanding debt from financial cooperation totalling EUR 41 million was subsequently cancelled for that country. A debt restructuring agreement was also concluded with the Seychelles for claims resulting from FC loans totalling EUR 3 million. This has eased the country's debt service burden.

Commitment volume by country in 2011, ranked by BMZ budget funds

Rank	Country	BMZ budget funds	KfW funds	Funds from other departments/donors	Total
		EUR in millions	EUR in millions	EUR in millions	EUR in millions
1	Afghanistan	162.55	0.00	19.38 2)	181.93
2	Kenya	114.38	82.58	4.81 2)	201.78
3	Yemen	51.30	0.00	0.00	51.30
4	Ukraine	45.60	25.00	0.00	70.60
5	Tunisia	42.25	79.40	0.80 2)	122.45
6	Mali	40.20	0.00	0.00	40.20
7	Kyrgyzstan	39.00	0.00	0.00	39.00
8	Egypt	39.00	0.00	2.67 2)	41.67
9	Uganda	38.25	0.00	8.00 2)	46.25
10	Bangladesh	35.25	0.00	0.00	35.25
11	Palestinian territories	34.50	0.00	0.00	34.50
12	Malawi	34.33	0.00	3.86 2)	38.19
13	Rwanda	34.00	0.00	18.05 2)	52.05
14	Viet Nam	33.50	189.00	97.75 1), 2)	320.25
15	Benin	33.00	0.00	0.00	33.00
16	Burkina Faso	29.00	0.00	0.00	29.00
17	Indonesia	28.72	2.00	0.00	30.72
18	Cameroon	27.50	0.00	0.00	27.50
19	Peru	27.20	54.30	6.30 1)	87.80
20	Brazil	25.00	100.00	2.80 1)	127.80
21	Zimbabwe	25.00	0.00	0.00	25.00
22	Ethiopia	24.75	0.00	0.00	24.75
23	Ghana	24.17	0.00	0.00	24.17

Continuation

Rank	Country	BMZ budget funds	KfW funds	Funds from other departments/donors	Total
		EUR in millions	EUR in millions	EUR in millions	EUR in millions
24	Bolivia	23.04	0.00	0.00	23.04
25	South Africa	22.50	50.74	0.00	73.24
26	Tajikistan	21.40	0.00	0.00	21.40
27	Senegal	21.30	0.00	0.00	21.30
28	Laos	21.00	0.00	0.00	21.00
29	Haiti	20.91	0.00	0.00	20.91
30	Pakistan	20.00	0.00	2.49[2)]	22.49
31	Georgia	17.00	20.00	10.73[2)]	47.73
32	Mozambique	16.50	0.00	0.00	16.50
33	PR of China	14.30	241.12	0.00	255.42
34	Serbia	13.11	124.50	0.00	137.61
35	Turkey	11.12	44.43	7.00[2)]	62.55
36	Republic of Kosovo	11.00	5.00	13.83[2)]	29.83
37	Tanzania	8.50	0.00	0.00	8.50
38	Morocco	8.50	0.00	15.00[1)]	23.50
39	DR Congo	7.90	0.00	0.00	7.90
40	Cambodia	7.00	0.00	0.00	7.00
41	Lebanon	7.00	0.00	0.00	7.00
42	Macedonia	6.22	38.15	0.00	44.37
43	Bosnia and Herzegovina	6.00	61.00	6.67[2)]	73.67
44	Uzbekistan	6.00	0.00	0.00	6.00
45	India	5.49	462.59	0.00	468.08
46	Namibia	5.00	0.00	0.00	5.00
47	Armenia	4.00	0.00	0.00	4.00
48	Ecuador	4.00	0.00	0.00	4.00
49	Djibouti	3.75	0.00	0.00	3.75
50	Burundi	3.00	0.00	0.00	3.00
51	Albania	2.40	0.00	1.50[2)]	3.90
52	Nepal	2.00	0.00	0.00	2.00
53	Moldova	1.00	0.00	0.00	1.00
54	Niger	0.65	0.00	0.00	0.65
55	Azerbaijan	0.50	0.00	0.00	0.50
56	Syria	0.50	0.00	0.00	0.50
57	Nigeria	0.30	0.00	0.00	0.30
58	Costa Rica	0.00	29.92	0.00	29.92
59	Croatia	0.00	18.00	0.00	18.00
60	El Salvador	0.00	14.08	0.00	14.08
61	Mauritius	0.00	4.00	0.00	4.00
62	Libya	0.00	0.00	75.00[2)]	75.00
63	Sudan	0.00	0.00	0.45[2)]	0.45
64	Supra-national	236.13	783.52	103.43[1), 2)]	1,123.07
65	Other	0.00	145.76	9.00[1), 2)]	154.76
Total		1,547.47[3)]	2,575.09	409.51	4,532.07

Memo item: Interest grants of EUR 163 million (of which BMZ: EUR 162 million; BMU: EUR 1 million)

Differences in the totals are due to rounding [1)] BMU funds [2)] Funds of other donors (also other budget funds) [3)] Deviation from total sum of federal budget funds, as only BMZ funds

DEG – DEVELOPING THE PRIVATE SECTOR, ENABLING PROGRESS

DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH) has been promoting private sector development in developing and transition countries for 50 years. It grants private enterprises long-term finance from its own funds on market-based terms that would not be available from commercial providers. Through development cooperation for private sector development, the KfW subsidiary helps facilitate sustainable progress in partner countries, thus providing people there with jobs, income and better prospects.

DEG promotes investment projects that make sense in terms of development policy and that are profitable as well as environmentally and socially sound.

DEG co-finances investment projects that make good sense in terms of development policy and that are profitable as well as environmentally and socially sound. It advises companies on structuring their investment projects and supports them throughout the entire project cycle. Systematic emphasis is placed on investments in small and medium-sized enterprises (SMEs), as these enterprises still lack adequate access to long-term financing.

DEG is a specialist in risk capital financing in the form of equity investments and mezzanine financing. Although demand for these instruments is particularly high, and although they are especially relevant to development, they are scarcely available in partner countries. To close these gaps, DEG provides risk capital to enterprises both directly and indirectly through financial intermediaries.

It also offers programmes to support companies in implementing measures that generate development results or that pave the way for investments. To this end, it uses both funds of its own and funds of the Federal Government.

DEG provides finance for corporate investment.

DEG's activities actually make investments in companies in developing countries possible, and a considerable amount of additional company capital is mobilised thanks to the funds it provides. The new financing commitments in 2011 alone, amounting to around EUR 1.2 billion, will facilitate investments totalling more than EUR 6.8 billion.

2011: effective in development and economically successful

In 2011, DEG recorded the third highest volume of new business in its history, EUR 1,223 million. Disbursements amounted to EUR 1,078 million. The DEG portfolio grew to a volume totalling around EUR 5.6 billion, spread across 549 companies in 85 partner countries. DEG was thus once again one of Europe's largest development financiers for private-sector promotion.

New commitments were made for 100 projects in 42 countries. Bangladesh, Cambodia, Togo and Uganda were among the least developed countries (LDCs) in which DEG was active in 2011.

The largest portion of new loan commitments, around EUR 418 million, went to projects in Asia, followed by around EUR 348 million for Latin America. Some EUR 219 million was provided for projects in sub-Saharan Africa. A total of EUR 186 million was committed to Europe and the Caucasus region, and EUR 44 million to North Africa and the Middle East, including support for investments in companies in Egypt and Iraq.

Africa is a strategic focus of DEG's international development cooperation. New commitments for this continent totalled EUR 233 million in 2011.

There is a particularly high demand in partner countries for risk capital in the form of equity investments and mezzanine financing. In 2011, commitments for risk capital financing reached a new record level of EUR 509 million. DEG contributed EUR 274 million to company equity, plus EUR 235 million in mezzanine financing structured as quasi-equity loans. Total loans in 2011 amounted to EUR 945 million, of which just under EUR 4 million were guarantees.

DEG committed a total of around EUR 506 million to the financial sector in 2011. Priority was given to loans for banks and other financing institutions, in order to improve the financial services offered to companies in partner countries. For example, DEG funded credit lines allocated for loans to local companies. It also continued to advise and support the banks it co-financed in complying with international standards of good corporate governance.

In 2011 DEG achieved a new record of EUR 342 million for infrastructure investments. Financing private companies' projects in this economic sector is particularly relevant for partner countries' long-term development. Of new commitments, 28% went to investments in energy and water supply, telecommunications, healthcare, transport and traffic.

Around EUR 270 million was allocated to investments in industry and manufacturing. With this, DEG supported the transfer of technology and knowledge to manufacturing companies, helping them in creating skilled jobs – in pharmaceutical production, and in the construction materials and recycling industry, among other sectors. Commitments to the agriculture and the foodstuffs industry totalled EUR 86 million, and those to the services sector EUR 19 million.

Cooperation with German companies is an important business area. To this end, DEG provided just under EUR 100 million for investments primarily in the manufacturing industry, for instance in Azerbaijan, China and Uruguay.

Around 43% of new financing commitments were allocated to small and medium-sized enterprises. DEG's SME financing makes a targeted contribution to closing the gap in supply of long-term SME financings in partner countries.

DEG focuses on long-term SME support.

Another of DEG's strategic objectives is promoting climate and environmental protection measures. In 2011, DEG granted around EUR 186 million to 22 investment projects for climate protection. It primarily promoted renewable energy projects and corporate measures to improve energy efficiency. Additionally, 45 "develoPPP.de" and accompanying measures involving environmental protection were co-financed to the tune of just under EUR 8 million.

DEG not only provides financing from its own funds to investing companies, but also offers additional promotional programmes for projects in developing countries.

Apart from equity financing, DEG implements a variety of promotional programmes, thereby supporting measures by German and other European companies that invest in developing and transition countries.

DEG has been running "develoPPP.de" – a programme for development partnerships with the private sector funded by the Federal Ministry for Economic Cooperation and Development (BMZ) – since 1999. Seventy new develoPPP projects were launched in 2011. A total of EUR 41.8 million was provided, of which EUR 16.3 million came from public funds and a further EUR 25.5 million from companies.

Around two thirds of the develoPPP.de projects dealt with the priority areas of resource conservation and climate protection, as well as the energy sector.

For the first time DEG financed feasibility studies for investment projects on behalf of the Federal

Ministry for Economic Cooperation and Development (BMZ). DEG contributed EUR 1.3 million for 11 studies, with companies providing an additional EUR 1.4 million. Grants to cover the transaction costs of smaller foreign investments by German companies were available from BMZ funds. This enabled SME measures to be implemented in India and El Salvador, for example.

Through its Climate Partnerships with the Private Sector Programme, DEG is promoting the dissemination of low-carbon technologies.

DEG has been implementing the Climate Partnerships with the Private Sector Programme on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) since 2010. This programme promotes the dissemination of environmentally-friendly technologies. BMU provided an additional EUR 2 million for this purpose in 2011. Funds of EUR 0.5 million were also made available for an energy efficiency programme in China, and EUR 1.0 million was provided for start-up financing of project development companies.

In order to scale up and enhance the structural development results of the projects it helped finance, in 2011 DEG provided EUR 1.8 million of its own funds to realise 53 accompanying measures, to which BMZ also contributed EUR 2.0 million of Federal Government budget funds.

Promoting aid effectiveness

The developmental quality of new commitments continued to improve in 2011.

DEG has been using its corporate-policy project rating tool to evaluate and manage the quality of its projects for some years. This tool can be used to perform both ex ante and ex post analyses. Each project is assessed in relation to four categories and then assigned to a development quality group based on the results. A total of 15 international financing institutions use this system developed by DEG.

The evaluation of new commitments in 2011 resulted in an average development quality rating of 2.4 – an improvement on the previous year. Around 110,000 jobs were created or secured at companies as a result of the investment commitments made in 2011. This figure was augmented by around 130,000 jobs with suppliers and end borrowers in financial sector projects.

Through tax payments in partner countries, the co-financed companies will contribute an anticipated amount of around EUR 780 million to annual public revenues, as well as generating annual net foreign exchange revenues of around EUR 700 million. This can reduce budget deficits, facilitate investment and boost foreign exchange receipts in the long term.

Moreover, around 63 % of new loan commitments contribute directly to achieving at least one of the international Millennium Development Goals. In addition, many of the companies co-financed by DEG are devoting particular attention to fulfilling their corporate social responsibility. They pay above-average wages, and, for instance, are offering additional pension or health insurance benefits, as well as establishing healthcare facilities and building kindergartens and schools.

Financing with a sense of responsibility

To qualify for DEG support, investment projects must be environmentally and socially sound. DEG actively communicates this conviction to the co-financed companies. It also examines every project to determine whether human rights are respected, fair working conditions are provided and operations are environmentally sound. DEG requires companies to agree to comply with national requirements as well as international environmental and social standards for all projects.

These include the performance standards of the International Finance Corporation (IFC) and the core labour standards of the International Labour Organization (ILO).

By concluding agreements on corresponding action plans, DEG also assumed the important development policy role of improving companies' corporate environmental and social responsibility, and promoting compliance with international standards in partner countries.

DEG also attaches a great deal of importance to its own corporate environmental and social responsibility. Besides the safety and health of its employees, it attaches priority to the efficient management of its resources. The DEG building, which was awarded a golden seal by the German Sustainable Building Council, also reported excellent energy consumption figures in 2011. All carbon emissions are offset under KfW Bankengruppe's climate neutral status.

Efficient international collaboration

DEG works with numerous international development financiers in order to pool funds and expertise. For example, it cooperates with 15 European partner institutions in the European Development Finance Institutions (EDFI) association. Other DEG partners include the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC), which is a member of the World Bank Group. DEG's objective in its strategic partnerships with commercial banks is to increase the offering of financial services to those sectors relevant to development.

In order to address the increasingly important role of private sector promotion in development cooperation at European level, the EDFI developed a new strategy in 2011. This is designed to improve the network's visibility and expand European financing partnerships.

The three largest EDFI members, DEG, FMO from the Netherlands and Proparco from France, concluded a cooperation agreement in 2011 to strengthen their successful collaboration. Among other things, they plan to set up an office in Johannesburg from which to undertake joint acquisitions. Together, DEG, FMO and Proparco committed more than EUR 1 billion for 30 new projects in 2011. This included a loan of over EUR 70 million for a major mining project in Kenya.

DEG cooperation with international development financiers is an effective way of pooling funds, expertise and experience.

DEG has also stepped up its cooperation with international partners outside Europe. Together with 25 bilateral and multilateral development financing institutions it has established a Corporate Governance Development Framework. By joining the framework, these development financiers agree to jointly improve the quality of corporate governance in project companies.

DEG and 30 additional financiers also commissioned a study on private sector promotion in 2011, which was published for the meeting of the IMF and the World Bank Group. The study shows that private sector promotion contributes significantly to sustainable growth, job and income generation as well as knowledge transfer.

An international study published in 2011 confirmed the effectiveness of private sector promotion.

DEG also restructured its organisation in 2011 in order to boost qualitative growth and sharpen its focus on strategic goals.

Continuing along its growth path using its own resources

Following an initially swift recovery in 2010, the global economy returned to lower growth rates in 2011. Growth was just 1.6 % in industrialised nations, with emerging and developing countries remaining relatively stable at around 6 % growth. This was primarily buoyed by the Asian economies.

Despite increasingly uncertain global economic trends, DEG promotional business remained at the record level of 2010. In 2011 DEG not only sustained its promotional business at this high level, but posted retained earnings for the year of EUR 218 million and a balance sheet profit of EUR 220 million.

DEG 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. With its capital boosted by retained earnings in 2011, DEG has established a sound base on which to expand its promotional business using its own resources in the years to come.

DEG also restructured its organisation to this end in 2011. It modified its processes so that it could efficiently continue along its growth path and focus more strongly on its strategic objectives: Africa, SMEs, climate and environmental protection, risk capital and cooperation with German enterprises.

CAPITAL MARKETS

During difficult market phases too, the bank's sense of responsibility, continuity and sustainable action remain important principles for KfW on the international capital markets. These pay off to the benefit of our investors, customers and shareholders.

KFW BENEFITS FROM THE "FLIGHT TO QUALITY"

KfW combines its funding with its liquidity, currency and interest rate management for the entire KfW Bankengruppe in its Capital Markets business area. This is also where the bank performs its special capital market-related tasks commissioned by the Federal Government. These include executing holding arrangements in the privatisation of Deutsche Telekom and Deutsche Post, as well as tasks relating to the implementation of EU-wide support measures for Greece.

Funding via the capital markets is essential to KfW – without access to the capital market, there is no promotional business.

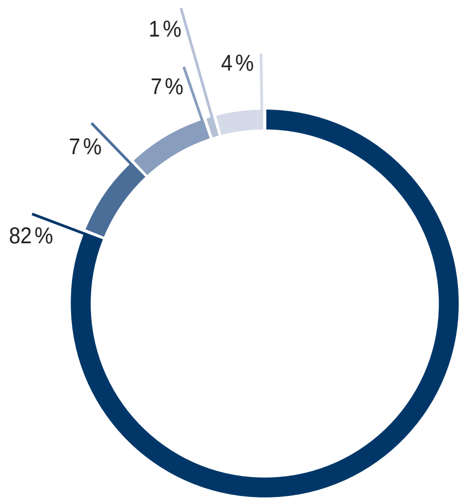
In fiscal 2011 the international financial markets were shaped by the escalation of the European sovereign debt crisis. The general market environment was highly nervous, volatile and uncertain. As investment opportunities deemed safe, KfW bonds were therefore particularly in demand. The bank profited from this, making 2011 a very successful year for refinancing, with the bank achieving a record volume.

As one of the world's most active bond issuers, KfW is among the major players on the bond market. It funds its business activities almost exclusively via the international money and capital markets.

Capitalisation of KfW Bankengruppe (EUR in billions as at 31 December 2011)

		2011
Capital market funds (original maturity >1 year)	378.6	82 %
Money market funds (original maturity ≤1 year)	32.3	7 %
Other liabilities	31.1	7 %
Subordinated liabilities	3.2	1 %
Equity	17.8	4 %
	463.1	100 %

Differences in the totals are due to rounding



LONG-TERM FUNDING: SAFE, SOLID, SUSTAINABLE

KfW is highly regarded on the international capital markets and has an excellent reputation. With an explicit direct guarantee provided by the Federal Republic of Germany and a clear shareholder structure, KfW is well positioned for difficult times on the capital markets. Its funding rests on a solid foundation with a refinancing strategy that is well established on the market. From an investor's point of view, KfW bonds offer excellent security, and are thus in particularly high demand during difficult market phases, as in financial year 2011.

KfW's success on the capital market is the result of status and strategy. The explicit guarantee provided by the Federal Government gives it a special status, and the market values its reliable and prudent issue strategy.

In the challenging environment of 2011, KfW fared particularly well in its capacity as a bond issuer on the international capital markets. It placed bonds totalling almost EUR 80 billion – a record in the history of the bank, which is particularly remarkable given the disruptions that have occurred. KfW has a wide range of options for setting up its bonds in terms of structure and currencies, enabling it to address the many different investor requirements.

KfW issued 362 bonds in a total of 11 different currencies in 2011, thereby raising long-term funding worth EUR 79.7 billion.

KfW's capital market services are regularly commended by the international financial media. For example, in 2011 Euroweek magazine recognised the KfW team responsible for the issue business as the best in its market segment for the third consecutive time. The US finance magazine Global Finance declared KfW the "World's Safest Bank" – likewise for the third time in a row.

Top-notch credit ratings

The Federal Republic of Germany has been explicitly liable for the bonds issued by KfW since 1998 pursuant to section 1a of the KfW Law. KfW's credit rating is thus primarily based on the creditworthiness of the Federal Republic and reflects its rating.

KfW's credit quality is assessed by the international rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's. KfW's credit rating was also subject to the regular review in 2011. All three agencies confirmed their best possible assessments for both KfW's short-term and long-term rating. In December, Standard & Poor's placed KfW's long-term rating on "CreditWatch negative", which means a downgrade is possible in the short term. The reason for this is KfW's close ties to the Federal Republic of Germany. Immediately prior to this, Standard & Poor's had placed Germany's AAA long-term rating, which is the best possible rating, on CreditWatch negative. This was done in connection with the mounting European sovereign debt crisis and potential stresses that were to be expected for individual member states.

At year end, KfW's ratings were as follows:

As at 31 Dec. 2011	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Short-term rating	F1+	P-1	A-1+
Long-term rating	AAA	Aaa	AAA
Outlook	stable	stable	*

** On 7 December 2011, Standard & Poor's placed KfW's long-term rating on "CreditWatch negative". On 17 January 2012, Standard & Poor's removed the rating from "CreditWatch negative" and confirmed KfW's long-term AAA rating with a stable outlook.*

Excellent sustainability ratings

KfW bonds combine the highest level of security with an exceptional sense of responsibility – sustainability enjoys top priority at KfW.

KfW bonds also offer attractive investment opportunities for socially responsible investors, as they combine the highest level of security with an exceptional sense of responsibility. This is confirmed by independent rating agencies that specialise in the sustainable investment sector. They analyse and rate environmental, social and governance aspects of equity and bond issuers for institutional investors. Such ratings assess a number of other aspects in addition to environmental management and the company's offering of products and services. These aspects include working-time models for employees, organisational measures to combat corruption, and principles of corporate governance and business practice. KfW has been rated by the Oekom Research and Sustainalytics rating agencies for many years, and has been assigned a top ranking by each in their international sector comparisons.

Sustainalytics ranked KfW second out of 96 non-listed banks rated, and first in the Development Agencies segment. Oekom Research ranked KfW second out of the 23 financial institutions and development banks in the Development Banks segment. This means KfW is rated a "prime investment".

Status and strategy: Liquid bonds preferred

KfW has a three-pillar funding concept. The first pillar consists of high-volume benchmark bonds denominated in euros and US dollars with particularly high liquidity. In 2011, they had maturities of three, five, seven and ten years. The right choice of favourable issue slot and a systematic focus on the predominant demand from investors in the areas of currency, maturity and volume were the key guarantees for a successful placement and stable performance by these KfW benchmark bonds.

2011 saw the tenth birthday of the KfW EUR Benchmark Programme, now KfW's most significant product. Since the programme was initiated, it has raised more than EUR 190 billion on the international capital markets for KfW – a success story KfW is very proud of.

The proportion of benchmark bonds in KfW's long-term funding in the reporting year was similar to the previous year. This underlines the fact that investors continue to prefer liquid bonds offered by issuers with top-notch credit quality.

Central banks, institutional investors from Germany and Europe and national and international asset managers were the dominant investor groups for benchmark bonds in euros. There was balanced demand from all regions of the world and all investor groups for KfW's benchmark bonds in US dollars. Their globally diversified investor base ensures the tradability of KfW bonds even after they have been issued.

KfW's investors value the three-pillar strategy because it was devised with vision and has a transparent and long-term focus.

The second pillar of KfW's funding concept comprises all public transactions outside the benchmark programmes. These include bonds in the core currencies euro and US dollar, as well as in other major currencies such as the pound sterling, Australian dollar, Swedish krona, Norwegian krone and Japanese yen. The proportion of total funding represented by public KfW bonds outside the benchmark programmes increased in 2011. There was stronger demand than in previous years for "Uridashi" bonds for Japanese private investors and KfW was able to expand its leading position.

The third pillar of KfW funding comprises the issuance of KfW securities and promissory note loans that are individually tailored to the requirements of institutional investors. The third pillar's share in the total volume of funding fell overall. However, the registered bonds business revived significantly in 2011, primarily for domestic insurance companies.

Funding in 2011/2010 by instrument

	2011		2010	
	EUR in billions	%	EUR in billions	%
Securities	77.8	98	75.2	98
Benchmark bonds	*42.5*	*53*	*43.6*	*57*
Other public bonds	*32.5*	*41*	*26.8*	*35*
Private placements	*2.7*	*3*	*4.8*	*6*
Loans	1.9	2	1.2	2
Credit-linked notes	*0*	*0*	*0*	*0*
Other	*1.9*	*2*	*1.2*	*2*
Total	79.7	100	76.4	100

Differences in the totals are due to rounding

EUR Benchmark Programme 2011

			2011
	EUR in billions	Maturity	Interest rate as %
KfW EUR Benchmark I/2011	4.0	10 years	3.375
Reopening of KfW EUR Benchmark I/2011	2.0	10 years	3.375
KfW EUR Benchmark I/2011	5.0	3 years	2.125
KfW EUR Benchmark II/2011	5.0	5 years	3.125
KfW EUR Benchmark III/2011	5.0	7 years	3.125
KfW EUR Benchmark IV/2011	5.0	5 years	2.000

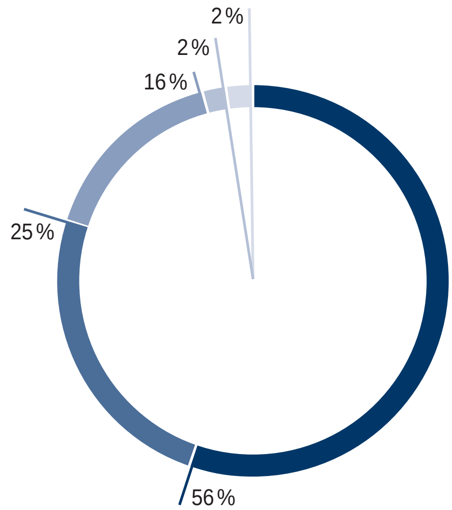
USD Programme 2011

			2011
	USD in billions	Maturity	Interest rate as %
KfW USD Benchmark I/2011	5.0	3 years	1.375
KfW USD Benchmark II/2011	4.0	5 years	2.625
KfW USD Benchmark III/2011	4.0	3 years	1.500
KfW USD Benchmark IV/2011	5.0	5 years	2.000
KfW USD Benchmark V/2011	2.0	10 years	2.375
KfW USD Benchmark VI/2011	3.0	5 years	1.250

Placement of KfW EUR Benchmark Bonds

	2011
Europe (excl. Germany)	56 %
Germany	25 %
Asia	16 %
North America	2 %
Other regions	2 %

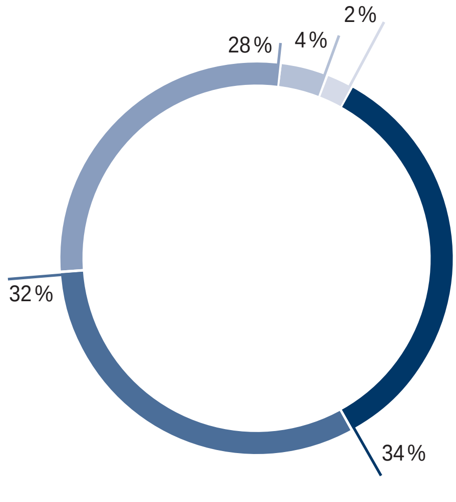
Differences in the totals are due to rounding



Placement of KfW USD Benchmark Bonds

	2011
Asia	34 %
Europe	32 %
North and South America	28 %
Middle East and Africa	4 %
Other regions	2 %

Differences in the totals are due to rounding



Variety of currencies: Adding strategic value for KfW

Currency diversification is very important for KfW. It enables the bank to flexibly adjust to changing demand and market conditions at any time. Currency risks that may arise when KfW issues foreign currency bonds are excluded by simultaneously concluding hedging transactions.

There was strong demand from investors worldwide for stable currencies.

The euro and the US dollar remained the core currencies of KfW funding in 2011. KfW raised more than three quarters of its capital market funds in these two currencies. Other important currencies included the Australian dollar, pound sterling, Norwegian krone and Japanese yen.

The number of currencies in which KfW placed bonds on the market fell to eleven (compared to 17 in 2010). At the end of the financial year KfW had bonds outstanding in 26 different currencies.

Funding in 2011/2010 by currency

Währung	2011		2010	
	EUR in billions	%	EUR in billions	%
EUR	39.9	50	31.7	41
USD	23.3	29	28.6	37
AUD	5.8	7	5.4	7
GBP	4.8	6	3.4	4
JPY	1.7	2	1.7	2
Other currencies	4.3	5	5.7	7
European currencies (HUF, NOK, SEK, TRY)	*4.0*	*5*	*3.9*	*5*
American currencies (BRL, CAD, PEN)	*0.2*	*< 1*	*1.1*	*1*
Oceanic currencies (NZD)	*–*	*–*	*0.4*	*< 1*
Asian currencies (IDR, SGD)	*–*	*–*	*0.2*	*< 1*
African currencies (ZAR)	*< 0.1*	*< 1*	*< 0.1*	*< 1*
Total	79.7	100	76.4	100

Differences in the totals are due to rounding

Currency mix of KfW funding

EUR

The euro, KfW's domestic market currency, was the most important funding currency even more so than in previous years. With a volume of EUR 39.9 billion, KfW raised 50 % of its total funding volume in this currency (compared to 41 % in 2010). To that end, it issued six large-volume benchmark bonds. KfW raised additional funds of EUR 14.0 billion via other EUR bonds and promissory note loans.

USD

EUR and USD are the most important funding currencies.

The US dollar remained in second place amongst KfW's most important funding currencies. KfW raised funds worth an equivalent of EUR 23.3 billion in the year under review, including six large-volume benchmark bonds. This corresponds to 29 % of the funding volume (compared to 37 % in 2010).

AUD

Benefiting from investors' continuing desire for currency diversification, the Australian dollar retained its prior-year position as KfW's third most important funding currency (7 %). The total volume of transactions in Australian dollars amounted to the equivalent of EUR 5.8 billion, making KfW the largest issuer in its segment in the so-called kangaroo market.

GBP

KfW is an issuer with a strong presence in the globally important markets.

KfW has also been a very active issuer with a solid market position in pounds sterling for years now. It raised funds worth an equivalent of EUR 4.8 billion in 2011 (compared to EUR 3.4 billion in 2010). This represented 6 % of its funding volume.

JPY

The Japanese capital market has been an important source of funding for KfW for more than 25 years. Taking advantage of high demand for complex bonds from top-notch issuers in Japan, KfW issued a total of 39 yen bonds with an equivalent value matching that of the previous year at EUR 1.7 billion. This corresponded to more than 2 % of the funding volume.

Other

Among the other funding currencies, the Norwegian krone (an equivalent of EUR 2.2 billion) was particularly significant. The funds raised in Swedish krona were worth the equivalent of EUR 1.2 billion. Other currencies in the reporting year were the Turkish lira, the Canadian dollar, the South African rand and the Brazilian real, with a total equivalent value of EUR 0.9 billion.

In May 2011, Euroweek magazine recognised KfW as the best issuer in its segment for its outstanding issue strategy in the currencies euro, US dollar and yen.

Successful strategy to continue in 2012

KfW is so strongly established in the capital market that it is looking to 2012 with great confidence.

KfW expects a funding requirement of around EUR 80 billion for financial year 2012. A key parameter in determining the amount of the planned funding requirement – which is at the same level as 2011 – is the promotional volume. This should remain high according to KfW's plans. 2012 marks the tenth year since the issuance of KfW's first US dollar bond in benchmark form and the bank anticipates that the importance of the benchmark programmes will remain consistently high.

KfW provides investors with continuity, stability and security.

KfW is cautiously optimistic as regards the capital markets in 2012, although renewed setbacks are possible. With the explicit, direct guarantee provided by the Federal Republic of Germany, it sees itself well equipped. KfW's top-notch credit quality, combined with a diverse and reliable refinancing strategy, mean that the bank stands on solid foundations. Offers across the maturity range and high flexibility in format and currency will also remain key factors for successful issuing activity tailored to investors' needs in 2012.

In order to refinance its funding requirements, KfW will rely on its tried-and-tested combination of high-volume benchmark bonds, other public bonds and private placements. The euro and US dollar will continue to be the main funding currencies. Along with the pound sterling and Japanese yen, currencies such as the Australian dollar, Norwegian krone and Swedish krona can once again be expected to play an important role. KfW expects to benefit from the increasing currency diversification of central banks and major investors.

SHORT-TERM FUNDING: COMMERCIAL PAPER FOR LIQUIDITY MANAGEMENT

Many investors had a low risk appetite in financial year 2011, and sought out investment opportunities that were particularly safe and, above all, short-term. In this regard, KfW's commercial paper is an ideal investment opportunity for institutional investors.

KfW manages the bank's liquidity using commercial paper.

KfW's business activities developed very encouragingly in the money market segment in 2011. The demand for safe and short-term investments in KfW commercial paper remained at a comparatively high level. The bank uses its two commercial paper programmes to raise short-term funds for a term of up to twelve months. The two programmes are important components of the KfW Bankengruppe approach to liquidity management, and are well established on the international money markets.

KfW provides commercial paper in all major currencies. This gives investors the opportunity to acquire short-term securities with German sovereign 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 designed for global investors is the most important short-term source of funding for KfW. It offers investors investment opportunities in all major currencies. Commercial paper was issued in eleven different currencies in 2011, primarily in US dollars, euros and pounds sterling. The issue volume was considerably higher than the prior-year volume, while the average outstanding volume rose only moderately year-on-year due to individual contracts having shorter maturities.

The US Commercial Paper Programme was specially designed for the US market. The issue volume remained at a high level, albeit slightly below the previous year's. KfW uses this programme to cover the majority of its need for short-term funds in US dollars.

The Multicurrency Commercial Paper Programme accounts for a programme volume of EUR 40 billion, with an average outstanding volume of EUR 19.9 billion in 2011. The US Commercial Paper Programme is worth USD 10 billion, with an average outstanding volume of USD 6.7 billion in the year under review. Taking both commercial paper programmes together, KfW issued securities in 1,505 transactions (compared to the previous year's figure of 1,626).

KFW'S SECURITIES TRANSACTIONS ARE SUSTAINABLE

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.

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 price 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 the 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 2011 drew to a close, KfW's liquidity portfolio accounted for a volume of EUR 19.6 billion. Combined, the securities items on KfW's balance sheet totalled EUR 30.0 billion. The difference is largely due to KfW's lending business in the form of securities.

KfW was a pioneer as one of the first German signatories to 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 for liquidity management purposes, but also compliance with environmental, social and governance (ESG) criteria. For this purpose, the bank created its own definition of sustainability, which encompasses the criteria of "environment", "social responsibility" and "corporate governance". KfW has also been communicating the results of the CSR assessment to its portfolio issuers since 2010. Since 2011, there have also been exclusion criteria for non-governmental issuers in the portfolio based on the World Bank Group debarment list. The bank also stepped up the communication of its sustainability activities on the capital market overall, in order to help make "sustainable financial investments" and "responsible investment" more mainstream issues for other capital market participants.

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

In April 2011, the specialist magazine Portfolio Institutionell recognised KfW as "best sustainable investor". Three components of KfW's approach were considered particularly positive: 1. its integration of ESG criteria, 2. its dialogue with issuers, 3. its exclusion 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 AG and Deutsche Post AG. 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

KfW and the Federal Government have agreed that the privatisation of Deutsche Telekom and Deutsche Post will be continued for the long term.

As part of the privatisation of Deutsche Telekom AG and Deutsche Post AG and special transactions mandated by the Federal Government, KfW bought shares from the Federal Government, and sold some of them in various capital market transactions, in several stages from 1997 onward. No further privatisation activities occurred in the year under review.

Equity investments

KfW holdings in Deutsche Telekom AG and Deutsche Post AG as at the end of 2011 stood at 735.7 million and 368.3 million shares respectively. This represented 17.0 % and 30.5 % respectively of the companies' share capital as at 31 December 2011. 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 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.

KfW has well-founded capital market expertise and is therefore in a position to offer skilled advice and support to the Federal Government in special tasks of this nature.

As part of a transaction mandated by the Federal Government, KfW provided Germany's portion of this loan; the the related risks are covered by a federal guarantee. In the reporting year, the euro area heads of state and chiefs of government agreed to ease the conditions of the Greek loan facility, including a margin reduction and an extension of the repayment period.

Loan to Greece

The euro area member states have offered Greece total financial aid of up to EUR 80 billion as part of a rescue package; Germany's share, which is disbursed through KfW, amounts to EUR 22.3 billion. The International Monetary Fund has contributed an additional EUR 30 billion. The euro area member states had paid EUR 52.9 billion to Greece by the end of 2011, of which KfW paid EUR 15.2 billion.

THE MEN AND WOMEN ON OUR STAFF

Many companies describe human capital as their most important asset. We take this statement seriously – it is the basis of our success and our corporate culture.

AT KFW WE SUCCEED TOGETHER WITH OUR STAFF

High demands continued to be placed on KfW and its employees in financial year 2011. In addition to a high volume of business, there were also important change projects to pursue with a view to the future. Managers and employees together delivered a great performance. This was based on the high mutual respect that KfW's managers and employees have for each other. As a bank, we are committed to achieving a healthy balance between performance and social responsibility. We place a high value on equal opportunities across the Group. Our employees acknowledge this by identifying strongly with KfW.

Personnel

At year-end 2011 KfW itself employed 4,010 people. KfW Bankengruppe, DEG and KfW IPEX-Bank together employed 5,063 people (compared to the previous year's figure of 4,816). In 2001 the number of staff in the Group grew by 5.1 % (compared to 5.2 % in 2010); this figure includes a 4.6 % increase in part-time employees.

The first stage of implementing KfW's modernisation process is to increase the size of the workforce.

The primary reason for the increase in staff numbers is the first stage of implementing KfW's modernisation process. The technological reorganisation of IT as a whole and the restructuring of the IT architecture in the finance area are leading the way in this process, along with major projects such as a new loan processing system and the customer focus project, one element of which involves online service. In the credit departments, the activities of the Financial Cooperation (FC) area in particular were expanded and strengthened by increasing staff numbers. The bank expects another significant increase in staff numbers in 2012 in the second stage of its modernisation process.

The proportion of employees not covered by collective wage agreements remained roughly constant in 2011, at around two thirds of the workforce. At 20.2 %, the proportion of part-time employees was higher than in the previous year (19 %).

As in the previous year, the average age of employees was just under 42. The staff turnover rate, adjusted for age-related retirement, was just 1.6 %, which shows that KfW's employees strongly identified with KfW and their jobs.

Objectives management and remuneration

KfW ensures pay that is commensurate with performance, and based on incentives.

On the basis of the “Salary determination and remuneration at KfW” staff agreement, which came into effect at the start of 2010, KfW pursues systematic objectives management. This supports the management of business activities bank-wide and at the same time ensures pay that is commensurate with performance for all employees. In line with KfW's business model as a promotional bank, mathematically calculable incentives are precluded for employees in any area. Instead, the remuneration system is structured as a reward system. Quantitative and qualitative objectives are given equal weight. Managers use their professional discretion to assess them.

2011 was a year of high volumes in promotional business and important internal change processes. KfW employees once again delivered extraordinary performance.

Equality and gender balance

As KfW has already been focusing its human resources policy on equal opportunities and work-life balance for many years, it is recognised as having attained a positive track record in this respect compared to other companies. For example, we offer our staff an exceptional variety of part-time models and even create opportunities for part-time management positions, including through job sharing. Overall we are able to offer our employees broad flexibility in terms of their working hours and location.

In 2011, the Executive Board approved what is now the bank's third Equal Opportunities Plan in agreement with the equal opportunities officer. It runs from mid-2011 to mid-2015, and its main objective is to increase the proportion of female managers and division heads. This reflects our conviction that mixed teams at all levels of management perform much better and work much more efficiently. KfW already stands up well among German companies, around 27 % of its managers being female. We intend to make sure that women are appointed to a third of all management positions by mid-2015. At the same time, we will continue to fill vacant management positions only with suitable candidates, irrespective of their gender. The bank is convinced that the objectives set can be reached through fair competition, while maintaining appropriate development opportunities for men and women in equal measure. Suitably qualified women will be prepared for their managerial role through special mentoring or coaching.

The bank's third Equalisation Opportunities Plan was approved by the Executive Board in agreement with the equal opportunities officer.

By approving the current Equal Opportunities Plan, KfW's Executive Board has demonstrated the bank's intention to establish a culture of gender balance that goes beyond formal equal opportunities for men and women. The stated aim is to consciously promote a gender-sensitive approach to leadership and cooperation. Specifically, this means that KfW's current processes, values and routines will be scrutinised and the necessary cultural changes initiated in order to achieve gender balance. This work will be based on the results of employee surveys and workshops with managers and women in all areas. As the process the Executive Board has launched is intended to permanently change corporate culture, it is expected to take several years.

Corporate culture and sustainability

According to KfW's corporate culture, its staff should meet all challenges by working together and thus deliver a high level of performance. As a bank, we are committed to achieving a healthy balance between focusing on performance and social responsibility. We expect and promote mutual respect between all managers and employees. We place high value on an open corporate culture and equal opportunities in compliance with the German General Equal Treatment Act for all KfW Bankengruppe staff.

In the next few years, KfW aims to consciously build a culture of gender balance and strengthen this culture holistically by ensuring that women and men work together. This will have a permanent impact on the company and, among other things, put a stronger focus on employees' health in the context of leadership and cooperation. If we look at the social pressures and longer working lives that are typical of our society today given the demographic change we are experiencing, it becomes clear that this is essential. This is the case even though staff confirmed in a health survey in 2011 that they are in relatively good health and enjoy good working conditions.

KfW places particular value on an open corporate culture and equal opportunities in compliance with the German General Equal Treatment Act.

KfW believes that long-term social responsibility also means employing people with a severe disability. Since 2011, KfW has been seeking out interested young people with a severe disability for its vocational training, in order to qualify them for working life. Once again KfW exceeded the statutory quota for employing people with severe disabilities in 2011. At 5.5 %, KfW was at roughly the same level as the previous year (5.6 %).

Change management

Like many companies, KfW is also experiencing increasing change. For example, implementation of the major IT Vision 2020 project is now underway. In addition, KfW has launched a further two major projects with multi-year lifespans. With regard to its "financial architecture", KfW aims to fulfil regulatory requirements (IAS/IFRS 9) and at the same time introduce a standard IT system. "Customer focus and business processes" will provide KfW's end clients with increased product transparency along with better and quicker service.

KfW is further increasing product transparency and optimising customer service.

Implementing projects of this size sustainably requires systematic, professional change management. The human resource and organisational development teams will be supporting these projects from the design and planning stages through implementation right up to the final evaluation, providing tailored change management measures.

Graduate training at all locations

Because of the changed staffing requirements in our specialist departments, we have expanded our graduate training programmes, which previously only took place in Frankfurt, to our branch offices in Bonn and Berlin. Training young people remains one of the most important investments in human resources the company makes.

Promoting young talent

Training and supporting young people is very important at KfW.

As at the end of 2011, 163 young people were undergoing their first vocational training course, of whom 104 were on sandwich degree programmes involving work placements (in 2010 the figure was 176, of whom were doing 112 sandwich degrees). On 31 December 2011, the number of graduate trainees stood at 46 (compared to the previous year's figure of 41). In the course of the year 90 students completed internships at KfW. The total number of interns, sandwich students, vocational and graduate trainees was 228 as at 31 December 2011 (compared to 233 in 2010). This equated to a training rate of 5.7 % (compared to 6.2 % in 2010).

Thank you

For KfW, 2011 was marked by a high level of promotional activity even after the expiry of the economic stimulus packages. Parallel to this activity, it was necessary to introduce numerous change processes in order to strengthen KfW and increase its efficiency. Both placed high demands on bank staff, as well as staff representatives, the equal opportunities officer and the representative for staff with severe disabilities. We would like to thank all of them for the good working relationship that we enjoyed in 2011.

IN MEMORIAM

We mourn the loss of three of our colleagues who passed away in 2011:

Paul-Ernst Eschweiler
Ingo Rohmund
Hubert Staudenmaier

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

Lieselotte Betzner
Kurt Blume
Erich Bornhäuser
Hans Brix
Claus Dahlmann
Hilde Fengler
Hans Gulich
Annelise Haupt
Hanni John
Sophie Kersten
Elfriede Klee
Herwig Klepper
Asta Lauschus
Herta Leistner
Christa Loebler
Anneliese Michel
Peter Mierbach
Leonhard Nagel
Herbert Pudell
Fritz Schippel
Utz Erik von Swieykowski
Ingrid Wiese
Manfred Wilhelms
Rudolf Wisura
Ella Wittschonke
Rosemarie Zaremba

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

FINANCIAL REPORTING

The continuing highly favourable overall environment had a very positive effect on KfW's result. The improved capital base will ensure the bank's long-term ability to pursue its 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 28 February 2012.

General economic environment

The world economy continued its recovery in 2011. While the beginning of the year was still characterised by strong upward movement, the global economy cooled off considerably over the course of the year. Global gross domestic product grew by around 4 % in real terms.

Asian emerging markets drove global growth even more strongly than in 2010. In contrast, below-average growth in industrialised countries was disappointing. Germany continued to demonstrate strength in the euro area; however, strict consolidation programmes and the extreme uncertainty concerning the progress of the crisis still visibly burdened those countries with high levels of government debt and low competitive ability.

Financial market events continued to be dominated by the European sovereign debt crisis in 2011. Another euro area country, Portugal, was forced to avail itself of the euro rescue package. Moreover, Greece's continued financial problems necessitated an additional rescue package and also fuelled market participant concerns about other euro countries' capacity to bear their levels of public debt. This caused increasing pressure on those European banks heavily engaged in trading government bonds. Monetary policy maintained its highly expansionary course. Money market rates remained at extraordinarily low levels; however the average slope of the yield curves declined in 2011 as compared to 2010.

The German real economy demonstrated its strength in 2011 despite the persisting sovereign debt crisis, primarily in the first half of the year. It grew by 3.0 % over the year as a whole. This was possible only because Germany entered the crisis without major upheavals and, for the most part, its exporters only had to face a very strong but relatively short global drop in demand. At the same time new domestic economic momentum has developed, decoupling the German economy somewhat from the cyclical fluctuations in the global economy. Private consumption in particular recovered considerably. Public finances developed extremely positively as a result of the strong upswing. The German federal budget deficit declined by 3.3 percentage points year-on-year to 1.0 % of GDP.

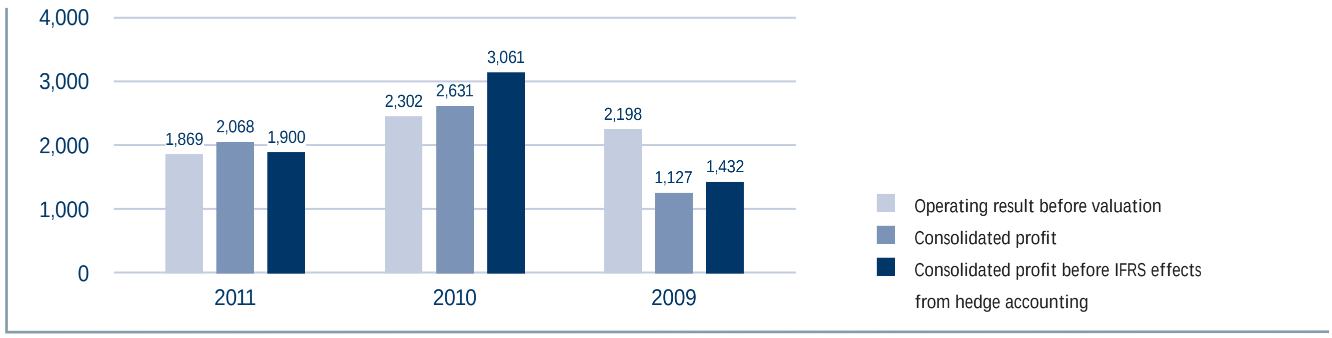
Major financial developments for the KfW Group

The KfW Group continued to benefit from a very favourable environment in financial year 2011. Earnings were favoured in particular by KfW's good refinancing opportunities at low interest rates, in conjunction with a robust German economy. Consequently, interest income as a main source of earnings as well as risk provisions for lending business were both well above long-term expectations, though below the exceptional year 2010. With a consolidated profit of EUR 2.1 billion (compared to the previous year's figure of EUR 2.6 billion), business activities remained at an extraordinarily high level. Given the stricter regulatory capital requirements and the uncertainties about future economic development, the resulting improved capital base will ensure KfW's long-term ability to pursue its promotional activities.

In 2011 the earnings position was characterised by

- a high operating result
- positive earnings benefit due to further improvement in the risk situation in lending business
- pressure due to the uncertainties on the financial markets caused by the European sovereign debt crisis

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



High operating result posted

The operating result before valuation remained at a very high level of EUR 1,869 million, despite its decline compared to the exceptional year 2010 (EUR 2,302 million), which came as no surprise.
The decline was due in particular to a reduction of EUR 353 million to EUR 2,399 million in net interest income, which remains the main source of earnings for the Group. KfW's excellent financing opportunities, which were a result of its first-class credit rating along with the current sustained low short-term interest rate environment – with a steep yield curve that is nevertheless becoming flatter than the previous year – are responsible for continued above-average earnings. At EUR 557 million, the interest rate reductions as a component of KfW's promotional business remained at the same high level as in the previous year.

Continued improvement in the risk situation

The Group's risk situation continued to develop encouragingly in 2011 after the tremendous improvement seen in the previous year. This was particularly due to the sound economic situation prevailing in Germany. Risk provisions were successfully reduced by a total of EUR 185 million (compared to the previous year's figure of EUR 424), while a cautious risk policy was maintained.
Collective impairments for latent risks in the loan portfolio were further reversed by EUR 220 million (compared to the previous year's figure of EUR 405). These were recognised by the Group to account primarily for those sectors and countries particularly hard hit by the recession. The moderate need for provision for immediate lending risks that predominantly involved export and project finance as well as financing for SMEs, was largely offset by recoveries on loans already written off.
The equity investment portfolio consequently posted positive results in this favourable environment. After very high earnings of EUR 163 million the previous year, earnings for the reporting year stood at EUR 54 million.

Difficult financial market environment

The financial markets were characterised by persistent high levels of uncertainty, particularly as a result of the problems in the European sovereign debt sector – in Greece above all – that peaked in the course of the year. These had a negative effect on the Group's securities portfolio of EUR 255 million (compared to a positive effect of EUR 107 million in the previous year). Of this amount, EUR 183 million alone was attributable to Greek government bonds with a nominal volume of EUR 251 million that were written down to their market value of an average 27 %.
Following high charges the previous year of EUR 431 million, valuation of derivatives saw a positive earnings benefit totalling EUR 167 million. As a non-trading book institution, KfW uses derivatives 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 1,900 million (the previous year's figure being EUR 3,061 million).

Development of net assets and financial position

In 2011 the consolidated total assets of the KfW Group increased by EUR 53.1 billion to EUR 494.8 billion. This increase is primarily attributable to increased liquidity maintenance and to market value changes in derivatives used for hedging purposes. New lending business resulted in a rise in total loans from EUR 19.7 billion to EUR 365.1 billion. As in previous years, growth in total assets was funded by issuing activities.
The profit was used to increase retained earnings and strengthen the fund for general banking risks. With the addition of EUR 1.1 billion to the fund for general banking risks, the strategy of maintaining separate risk provisions was continued. There was a sustained improvement in the Group's capital base in 2011, which is helping to secure KfW's long-term promotional capability and to prepare for the stricter capital requirements in accordance with Basel III.

Development of the risk situation

The situation for banks, especially European ones, noticeably worsened again in 2011. In addition to the challenges of the European sovereign debt crisis, capital requirements, which were increased at short notice and are to be implemented by mid-2012, are also having a negative impact on the economic situation for banks and restricting business opportunities. The situation on the interbank market has recently deteriorated and exhibits parallels with the state of affairs following the Lehman Brothers' collapse in autumn 2008. The European Central Bank's massive measures to support liquidity are averting serious upheavals in the banking sector. Overall, enormous risks mean that the European banking sector in particular will also face major challenges in 2012. The difficulties remain manifold – the European sovereign debt crisis, economic cooldown, increasing problems in Eastern Europe and implementing the increased capital requirements.

Despite the euro crisis and in contrast to most other European countries, Germany's economic recovery continued across all sectors in 2011. Many companies returned to their pre-crisis level, built reserves and emerged strengthened from the crisis. In international merchant shipping, the new tonnage coming into the market meant that excess supply increased again in 2011, pushing down freight and charter rates considerably.

No recovery is in sight in the short term. A continuation of the European sovereign debt crisis and the weakening global economy will have a dampening effect on the German economy in 2012, meaning that companies will probably invest less or delay investment.

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, due in particular to the positive economic growth in Germany, and KfW was able to reduce risk provisions in the Group during the course of the year. All recognisable risks are measured using conservative standards and are taken into account in new business management through systematic establishment of risk guidelines. The regular calculations of risk-bearing capacity show that KfW Bankengruppe can bear the risks assumed in the context of its mandate – even based on conservative stress scenarios.

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

As at 31 December 2011, 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 % would be attained even if unfavourable macroeconomic conditions were to occur.

The regulatory capital ratios significantly improved year-on-year. The tier 1 capital ratio increased in the course of the year to 15.4 % (compared to the previous year's figure of 12.4 %); the total capital ratio to 17.8 % (compared to 14.7 % in 2010).

In financial year 2011 the international financial markets were shaped by the escalation of the European debt crisis. The general market environment was highly nervous, volatile and uncertain. As investment opportunities deemed safe, KfW bonds were therefore particularly in demand on the capital market. KfW's ability to refinance was therefore not under threat at any time.

Outlook

The world economy is in an extremely fragile state. The industrialised nations are suffering the consequences of the government debt crisis. Developments in the European monetary union have escalated into a major crisis of confidence, which has not only infected the financial system but is also beginning to impact upon the real economy. The question of whether policymakers can keep the debt crisis under control effectively will be decisive for the performance of the world economy in 2012. Even if they are successful, growth in advanced economies will remain subdued. The emerging market countries will show weaker growth in 2012 as they are not wholly immune to a slowdown in demand from the industrialised countries. Overall, the world economy should see moderate growth in 2012 and avoid a recession. However, considerable downside risks remain.

The KfW Group's planned volume of new business for 2012 of EUR 73 billion is similar to that of the previous year. The focus in the domestic promotional business of KfW Mittelstandsbank, KfW Privatkundenbank and KfW Kommunalbank, for which new business worth EUR 50.5 billion is planned, will continue to be on SME financing and ensuring the future viability of companies. KfW will concentrate in future even more strongly on the quality of promotion and will place less emphasis on unrestricted activities, for example global loans not tied to promotional areas. Strengthening cooperation with developing, transition and emerging market countries, and expanding support to the export industry, remain core tasks for KfW; a total new business volume of around EUR 19 billion is targeted. One of the challenges will be to support the transition to new forms of energy. KfW plans the strongest growth in environmental and climate protection, which is a group-wide priority issue. Using its various securitisation instruments, KfW plans a commitment volume of EUR 3.6 billion for 2012. KfW expects high refinancing volumes to continue for the next two years. It expects a funding requirement of around EUR 80 billion for financial year 2012.

In its current earnings projections for the group, KfW expects to achieve total earnings in the region of EUR 1.2 billion in 2012. The key assumptions for this forecast are moderate economic growth and a modest increase in interest rates with a flattening yield curve. Although such a development would have a negative effect on net interest income, this is still expected to be at a high level in 2012. A normalisation is expected for 2012, and therefore a rise in the need for risk provisions for lending business in comparison to 2011. KfW's earnings projections remain highly uncertain, given the current developments in the euro area. This uncertainty primarily relates to how interest and exchange rates will develop. There may also be fluctuations in earnings from IFRS-compliant hedge accounting in the future, although from an economic perspective these are baseless.

CORPORATE GOVERNANCE

KfW recognises the principles of the German code for corporate governance and monitoring. In so doing it builds trust in responsible and transparent corporate governance, as sustainable value creation requires security and continuity.

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS

Dr Philipp Rösler
Federal Minister for Economics and Technology

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 held three meetings, the Executive Committee and the Credit Committee each held four meetings and the Audit Committee two meetings in 2011. 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 in general
- particularly sensitive areas such as the exposure to European states and possible impacts of the European sovereign debt crisis on KfW, the ship portfolio and the development of the remaining risk positions from the risk protection afforded to, and the sale of, the equity interest in IKB
- the initiated large-scale projects for the further modernisation of KfW; these include, among others, adopting provisions of the German Banking Act at KfW, realigning the entire IT area (for instance for the finance architecture), adapting to new regulatory requirements and greater orientation to client needs
- the creation of an independent Compliance Department that consolidates and expands the existing compliance functions to meet the demands which have increased and will continue increasing in the future
- KfW's risk and business strategy for the year 2012

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 improvements to the financing schemes in order to support the energy turnaround adopted by the Federal Government. The focusing of the ERP programmes on start-up and innovation promotion and of the KfW programmes on environmental and general corporate finance was also presented, as were new products and product improvements in the areas of SME, housing and municipal finance. The allocation of promotional funds to direct lending business under municipal finance through a new portfolio management was discussed. The Executive Board also reported on the termination and effects of the "KfW Special Programme" and on the other measures with which KfW has supported the Federal Government in the implementation of the economic stimulus package.
- With a view to KfW Entwicklungsbank, the Executive Board reported on increasing Germany's ODA commitments through the expansion of development finance based on the bank's own funds and on the planned expansion of climate finance through the launching of the German Climate Technology Initiative, as well as the increasing activities in fragile states (Libya, Sudan, Afghanistan, among others).
- In relation to KfW IPEX-Bank GmbH and the business area of Export and Project Finance, the reporting was primarily centred on the significant revival of demand for long-term finance as a result of capital market developments, on the establishment of an Advisory Council for enterprises and on preparations for Basel III.
- The Board of Supervisory Directors was also informed of the commitment of KfW Bankengruppe to sustainability including, among other topics, the high share of financing for environmental and climate protection in KfW's commitments and the planned further intensification of its activities in this area. It was also informed of awards which KfW received, including the "2011 Overall "Best Tall Building Worldwide" Award" of the international Council on Tall Buildings and Urban Habitat (CTBUH) for the West Arcade building at the Frankfurt location, which KfW occupied in the summer of 2010.

The Board of Supervisory Directors was informed at the meetings as well as quarterly, in writing, of the Group's net assets, earnings position and risk situation, and of the development of its promotional business.

At the meetings the Executive Board discussed KfW's strategic orientation with the Board of Supervisory Directors. The improvements to the qualitative composition of the product portfolio and the continuing strong commitment to the financing of small and medium-sized enterprises were major points of emphasis.

The continued very positive development of the Group's profitability has further strengthened its risk-bearing capacity. The Board of Supervisory Directors approved the business strategy and related planning for the year 2012.

The Executive Board also informed the Board of Supervisory Directors of the current state of the project "Profile KfW". This provides the framework for measures to improve the quality and efficiency of the promotional activities and the perception of KfW and the marketing of its products.

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, after a settlement with one of the former Executive Board members in 2010, now agreed to a settlement with the other former member as well. The conclusion of this settlement ended the legal disputes with Board members resulting from the Lehman incident.

Corporate governance

In order to adopt the principles of the Federal Public Corporate Governance Code (Public Corporate Governance Kodex – PCGK), the Board of Supervisory Directors had approved an amendment to KfW's By-Laws on 1 January 2011. A further amendment to the By-Laws was decided in the April 2011 meeting for entry into effect on 1 May 2011. This amendment provides that for efficiency reasons the general loan submissions and funding operations will be finally processed by the Credit Committee. In addition, on 7 December 2011 the Board of Supervisory Directors determined that the Credit Committee is also responsible for approving the limits for swap transactions conducted by KfW.

Committees of the Board of Supervisory Directors

In addition to the affairs of the Executive Board of KfW, the Executive Committee also concerned itself with the amendment to the KfW By-Laws in regard to the treatment of loan submissions, an amendment to the Code of Conduct for the Executive Board and real estate matters.

After 1 May 2011, the Credit Committee reviewed the commitments that have to be presented to it under the Law concerning KfW and the KfW By-Laws as well as the funding operations and was informed of the credit risks. Moreover, against the background of the European sovereign debt crisis the Credit and Audit Committees concerned themselves in particular detail with the impact of the crisis on KfW, the exposures to European states, the ship portfolio with its individual sub-segments 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 Internal Control System (ICS) and the activities of the Internal Auditing department in the year 2010. It was informed of the planned reporting on the effectiveness of the internal auditing system and the risk management system and concerned itself with the independence of the auditor.
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 Audit Committee was regularly informed of the progress of the project for adopting provisions of the German Banking Act at KfW and of the other large-scale projects involving the continuing modernisation of KfW.

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 at its meeting of 29 June 2011 appointed Dr Edeltraud Leibrock as a regular Executive Board member for the term from 1 October 2011 to 30 September 2015. Dr Leibrock's areas of responsibility are Information Technology, Organisation and Consulting, which are particularly important for the large-scale projects, and Central Services.

As was agreed, in my capacity as Federal Minister of Economics and Technology I assumed the position of Chairman of the Board of Supervisory Directors for 2012 from my colleague Dr Wolfgang Schäuble, Federal Minister of Finance.

During the reporting period, Rainer Brüderle, Georg Fahrenschon, Monika Kuban, Stefan Mappus and Dr Werner Schnappauf 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 2011 Dr Philipp Rösler, Frank Horch, Dr Nils Schmid and Dr Markus Söder and on 1 January 2012 Helmut Dedy and Dr Markus Kerber joined the Board of Supervisory Directors.

Annual financial statements

KPMG AG, who were appointed auditors for the 2011 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 of 31 December 2011 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 (HGB) and the consolidated financial statements and the group management report were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the European Union.

At its meeting on 27 March 2012 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, 27 March 2012

THE BOARD OF SUPERVISORY DIRECTORS

Chairman

CORPORATE GOVERNANCE REPORT 2011

As the promotional bank of the Federal Republic of Germany, KfW has committed itself to making responsible and transparent action comprehensible. The Executive Board and the Board of Supervisory Directors of KfW recognise the Public Corporate Governance Code (Public Corporate Governance Kodex – PCGK) of the Federal Republic of Germany. A Declaration of Compliance with the recommendations of the PCGK was issued for the first time on 6 April 2011. Since then any potential deviations are disclosed and explained on an annual basis.

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).

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. 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 requirements became effective on 1 January 2011, with reference to some provisions concerning the Credit Committee on 1 May 2011.

Declaration of Compliance

The Executive Board and Board of Supervisory Directors of KfW hereby declare: "Since the Declaration of Compliance issued on 6 April 2011, the recommendations of the Public Corporate Governance Code of the Federal Republic, as adopted by the Federal Government on 1 July 2009, were and will be fulfilled to the extent applicable to KfW as a public-law institution 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 all members of the Board of Supervisory Directors is 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.
- Since 1 May 2011, the Credit Committee gives final approval to all financings requiring approval according to the KfW By-Laws as well the procurement of funds. Effective 7 December 2011, the Board of Supervisory Directors also determined that the Credit Committee will be responsible for the approval of swap transactions of KfW. It is standard procedure at banks for the final decision in such matters 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 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

According to the applicable By-Laws amended on 1 January 2011, KfW may not grant individual loans to Members of the Executive Board and the Board of Supervisory Directors. For equal treatment reasons, this does not apply – in derogation of clause 3.4 of the Code – 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. The Board of Supervisory Directors must be informed of programme loans granted to members of the Board of Supervisory Directors.

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.

Through the appointment of Dr Edeltraud Leibrock and changes to departmental responsibilities effective 1 October 2011, the responsibilities of the Members of the Executive Board of KfW changed in the reporting year as follows:

- Dr Ulrich Schröder – Chief Executive Officer, Group Strategy and Planning (until 30 September 2011), Management Affairs and Communication (from 1 October 2011), Group Development and Economics (from 1 October 2011), Internal Auditing, Compliance, Legal Affairs (until 30 September 2011), Sales (until 30 September 2011), and Sustainability
- Dr Günther Bräunig – Financial Markets, Capital market-related products and securitisations, Human Resources, Organisation and Consulting (until 30 September 2011), Legal Affairs (from 1 October 2011)
- Dr Norbert Kloppenburg – International Finance (KfW Entwicklungsbank, DEG, Export and Project Finance), Central Services (until 30 September 2011)
- Dr Edeltraud Leibrock (from 1 October 2011) – Organisation and Consulting, Central Services, Information Technology
- Bernd Loewen – Risk Management and Controlling, Accounting, Restructuring, Transaction and Collateral Management
- Dr Axel Nawrath – Domestic Finance (KfW Mittelstandsbank, KfW Privatkundenbank, KfW Kommunalbank; from 1 October 2011 including Sales), Environmental Issues, Information Technology (until 30 September 2011)

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 Dr Wolfgang Schäuble. 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 business or private dealings with KfW or its Executive Board which are based on a substantial and not merely temporary conflict of interests. Each member of the Board of Supervisory Directors is to disclose conflicts of interest to the Board of Supervisory Directors. No such situation occurred during the reporting year.

Four 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 handling all credit matters and the approval of fundraising and swap transactions of KfW.

The Audit Committee is responsible for accounting and risk management issues. In particular, it deals with monitoring the accounting process, the effectiveness of the internal controlling system, the internal audit system and the risk management system, auditing the annual and group financial statements, the required independence of the auditor and determining the main points of the audit.

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 (MaRisk) and the German Solvency Regulation *(Solvabilitätsverordnung – SolvV)*. The Group company KfW IPEX-Bank GmbH is fully subject to the provisions of the German Banking Act, the DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH to a limited extent.

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 including the Declaration of Compliance with the PCGK 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 overall risk situation is subject to comprehensive analysis using monthly risk reports to the Executive Board, and corrective action 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 and money laundering 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 2011 on 29 April 2011. The appointment was based on the proposal made by the Board of Supervisory Directors on 6 April 2011. 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 PCGK. 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. Possible improvements were addressed by the Board of Supervisory Directors and Executive Board. Those involved continuously work to implement and monitor these improvements. The next efficiency audit will address the fiscal year 2012 and thereafter will continue at two-year intervals.

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

	2011	2010	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Executive Board	3,365	3,346	19
Former members of the Executive Board and their surviving dependents	3,827	4,026	–199
Members of the Board of Supervisory Directors	175	176	–1
Total	7,367	7,548	–181

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 *(Grundsätze für die Anstellung der Vorstandsmitglieder bei den Kreditinstituten des Bundes).* The Federal Public Corporate Governance Code (Public Corporate Governance Kodex des Bundes – PCGK) in the version dated 30 June 2009 was taken into account when drawing up the contracts. The individual contracts contain adjustments.

Compensation components

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. Based on an annual agreement on objectives, 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. A maximum bonus payment has not been defined. The agreement on objectives for the year 2011 comprises promotional, quantitative and other objectives.

Responsibilities

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.

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 Board members.

Annual compensation to the Executive Board and allocations to pension provisions in 2011 and 2010[1)]

	Year	Salary	Variable compensation	Other compensation[2)]	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)	2011	673.1	240.0	117.9	1,031.0	297.8
	2010	660.0	160.0	177.2	997.2	516.4
Dr Günther Bräunig	2011	515.8	0.0	27.2	543.0	216.2
	2010	466.6	0.0	26.0	492.6	269.2
Dr Norbert Kloppenburg	2011	474.0	0.0	69.7	543.7	217.0
	2010	466.6	0.0	52.0	518.7	270.2
Dr Edeltraud Leibrock (from 1 October 2011)	2011	124.5	0.0	11.4	135.9	64.5
	2010	–	–	–	–	–
Bernd Loewen	2011	487.7	0.0	45.4	533.1	126.3
	2010	480.0	0.0	283.6	763.6	181.4
Dr Axel Nawrath	2011	473.5	0.0	104.7	578.2	292.7
	2010	466.0	0.0	107.6	573.6	412.9
Total	2011	2,748.6	240.0	376.3	3,364.9	1,214.5
	2010	2,539.2	160.0	646.5[3)]	3,345.8	1,650.1

1) Some independent rounding may occur in the table due to computational reasons.
2) Changes in Other compensation from 2010 to 2011 are partly due to the fact that this item contains cost for security measures at Executive Board members' residences in 2010, which are reported in the annual financial statements as non-personnel expense and no longer included in Other compensation in 2011.
3) Other compensation in 2010 without costs for security expenses amounted to EUR 334,200.

Contractually agreed fringe benefits

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.

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 dir-ectors 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. 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 of 1 July 2011, no compensation is paid to members of the Executive Board for assuming executive body functions at Group companies.

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

As contractually agreed fringe benefits and based on a personal security scheme, costs for security measures at Executive Board members' residences are covered to an appropriate extent. These security benefits are reported as non-personnel expenses in the 2011 annual financial statements.

The contractually agreed fringe benefits are granted tax-free to Executive Board members; if this is not possible or has not been contractually agreed, any taxes incurred on such benefits are borne in full by the 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 75.1 thousand (previous year: EUR 81.4 thousand). The interest rate is between 3 % p. a. and 4 % p. a. The residual term of the loan was 9.9 years as at the reporting date. No new loans were granted to Executive Board members in financial year 2011 nor will any more be granted in future.

No Executive Board member was granted or promised any benefits by a third party during the past financial year with a view to his position as a member of the KfW Executive Board.

Pension benefits and other benefits in the case of early retirement

In accordance with Section 1 (1) of the By-Laws of KfW, the appointment of an Executive Board member should not extend, as a rule, beyond the completion of the legal age of retirement. After reaching 65 years of age or the legal age of retirement and expiration of their Executive Board contract, Executive Board members are entitled to claim pension payments; they may also elect to retire early after reaching 63 years of age.

Pension commitments for Executive Board members as well as their surviving dependents are based on the 1992 version of the Federal Government's policy for hiring executive board members at credit institutions. The Federal Public Corporate Governance Code in the version dated 30 June 2009 was taken into account when drawing up the Executive Board contracts.

In the case of Executive Board members who have been appointed or reappointed to the Executive Board since 2010, a severance pay cap was included in the Executive Board contracts in accordance with the recommendations of the Federal Public Corporate Governance Code. In other words, payments to an Executive Board member due to early termination of the Executive Board function without good cause in accordance with Section 626 German Civil Code *(Bürgerliches Gesetzbuch – BGB)* should not exceed the equivalent of two years' salary or compensation including fringe benefits for the remainder of the contract, depending on which of the amounts is lower.

Executive Board contracts which were concluded before 2010 generally provided for early retirement benefits after two terms on the Board, regardless of age and even in the case that KfW did not extend the Executive Board contract. This no longer applies to the Executive Board contract concluded in 2011. For Executive Board members reappointed to the Executive Board since 2010, any early retirement benefit entitlements were grandfathered by converting them into claims with a time limit. Moreover, Executive Board members are entitled to pension benefits if their employment relationship terminates due to permanent disability.

The full benefit entitlement totals 70 % of the pensionable salary. The pensionable salary is 70 % of the last salary. The benefit entitlement – with the exception of the Chief Executive Officer – normally amounts to 70 % for a first-time appointment and increases over ten years by 3 percent for every year of service completed.

The Executive Board contracts contain additional individual provisions, in particular concerning vesting of pension benefits.

In 2011, KfW concluded a settlement agreement with a former Executive Board member upon judicial clarification and to avoid years of expensive legal dispute. Pursuant to this agreement, this former Executive Board member receives no severance and waives parts of his contractual salary and pension benefits in settlement of damages but without admitting that he caused the damage.

Pension payments to former Executive Board members or their surviving dependents were as follows in 2011 and 2010:

Pension payments to former Executive Board members and their surviving dependents

	Number 2011	EUR in thousands 2011	Number 2010	EUR in thousands 2010
Former members of the Executive Board	20	3,227	20	3,318
Surviving dependents	10	600	10	708
Total	30	3,827	30	4,026

Provisions in the amount of EUR 48,413 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 48,515 thousand).

No loans were granted to former Executive Board members and their surviving dependents in financial year 2011.

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 5 (8) of the By-Laws of KfW. Prior to the amendment to the By-Laws effective 1 January 2011, the term "Aufwandsentschädigung" 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. Moreover, compensation for the Chairman of the Board of KfW Supervisory Directors and his deputies was also set at EUR 0.

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 5.1 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 tables provide details on the compensation paid to the Board of Supervisory Directors in financial years 2011 and 2010: stated amounts are net amounts in EUR thousands. Travel expenses are reimbursed upon submission of receipts and are not taken into account in the table.

Compensation to members of the Board of Supervisory Directors for financial year 2011

No.	Name	Dates of membership	Board of Supervisory Directors membership[1]	Committee membership[1]	Daily allowance	Total
		2011	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1	Dr Wolfgang Schäuble	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
2	Rainer Brüderle	1 Jan.–12 May	0.0	0.0	0.0	0.0
3	Dr Philipp Rösler	12 May–31 Dec.	0.0	0.0	0.0	0.0
4	Ilse Aigner	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
5	Norbert Barthle	1 Jan.–31 Dec.	5.1	1.0	0.4	6.5
6	Jan Bettink	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
7	Anton F. Börner	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
8	Volker Bouffier[2]	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
9	Frank Bsirske	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
10	Prof. Dr Hans Heinrich Driftmann	1 Jan.–31 Dec.	5.1	0.0	0.2	5.3
11	Ingeborg Esser	1 Jan.–31 Dec.	5.1	0.6	0.2	5.9
12	Georg Fahrenschon[2]	1 Jan.–3 Nov.	4.7	0.4	0.0	5.1
13	Heinrich Haasis	1 Jan.–31 Dec.	5.1	1.8	0.8	7.7
14	Hubertus Heil	1 Jan.–31 Dec.	5.1	1.0	0.6	6.7
15	Gerhard Hofmann	1 Jan.–31 Dec.	5.1	1.2	0.6	6.9
16	Frank Horch[2]	17 June–31 Dec.	3.0	0.3	0.0	3.3
17	Bartholomäus Kalb	1 Jan.–31 Dec.	5.1	0.7	0.8	6.6
18	Dr h.c. Jürgen Koppelin	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
19	Monika Kuban	1 Jan.–31 Dec.	5.1	0.0	0.4	5.5
20	Karoline Linnert[2]	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
21	Dr Gesine Lötzsch	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
22	Stefan Mappus[2]	1 Jan.–31 Aug.	3.4	0.3	0.0	3.7
23	Claus Matecki	1 Jan.–31 Dec.	5.1	0.0	0.4	5.5
24	Dr Michael Meister	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
25	Franz-Josef Möllenberg	1 Jan.–31 Dec.	5.1	1.2	0.8	7.1
26	Dirk Niebel	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
27	Dr Peter Ramsauer	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
28	Dr Norbert Röttgen	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
29	Hanns-Eberhard Schleyer	1 Jan.–31 Dec.	5.1	1.2	0.8	7.1
30	Dr Nils Schmid[2]	4 Nov.–31 Dec.	0.8	0.1	0.2	1.1
31	Andreas Schmitz	1 Jan.–31 Dec.	5.1	1.8	0.2	7.1
32	Dr Werner Schnappauf	1 Jan.–31 Dec.	5.1	0.6	0.4	6.1
33	Carsten Schneider	1 Jan.–31 Dec.	5.1	0.9	0.8	6.8
34	Dr Markus Söder[2]	16 Dec.–31 Dec.	0.4	0.0	0.0	0.4
35	Michael Sommer	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
36	Gerd Sonnleitner	1 Jan.–31 Dec.	5.1	0.6	0.4	6.1
37	Marion Walsmann[2]	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
38	Dr Norbert Walter-Borjans[2]	1 Jan.–31 Dec.	5.1	0.5	0.2	5.8
39	Dr Guido Westerwelle	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
Total			144.9	19.5	10.8	175.2

[1] *The amounts were not yet paid out as of the reporting date 31 December 2011.*
[2] *Amount determined by state law*

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

No.	Name	Dates of membership	Board of Supervisory Directors membership[1]	Committee membership[1]	Daily allowance	Total
		2010	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 Linssen[2, 3]	1 Jan.–24 Aug.	3.4	0.7	0.0	4.1
19	Dr Gesine Lötzsch[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		147.0[4]	19.1[4]	10.0	176.1[4]

[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 direct 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, 27 March 2012

The Executive Board

The Board of Supcervisory Directors

Executive Board

Dr Ulrich Schröder (Chief Executive Officer) | Dr Günther Bräunig | Dr Norbert Kloppenburg
Dr Edeltraud Leibrock (from 1 October 2011) | Bernd Loewen | Dr Axel Nawrath

Directors

Petra Borisch
Dr Stefan Breuer
Dr Frank Czichowski
Michael Ebert
Dr Lutz-Christian Funke
Helmut Gauges
Werner Genter
Dr Volker Groß
Detlev Kalischer
Klaus Klüber
Doris Köhn
Cherifa Larabi
Dr Matthias Leclerc
Klaus Neumann
Werner Oerter
Uwe Ohls
Stephan Opitz
Christiane Orlowski
Dr Stefan Peiß
Wolfgang Roßmeißl
Dr Jürgen Schneider
Klaus Weirich

Management Board of KfW IPEX-Bank GmbH

Christiane Laibach | Christian Murach | Markus Scheer | Harald Zenke (Speaker)

KfW IPEX-Bank is responsible for the business area of 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 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 Finance, and the Deputy Chairman was the Federal Minister of Economics and Technology.

Dr Philipp Rösler
Federal Minister of Economics
and Technology
Chairman (from 1 January 2012)
Deputy Chairman (from 12 May 2011
until 31 December 2011)

Dr Wolfgang Schäuble
Federal Minister of Finance
Deputy Chairman
(from 1 January 2012)
Chairman
(from 1 January 2011 until 31 December 2011)

Rainer Brüderle
Former Federal Minister of Economics
and Technology
Deputy Chairman
(from 1 January 2011 until 12 May 2011)

Ilse Aigner
Federal Minister of Food,
Agriculture and Consumer Protection

Norbert Barthle
Member of the German Bundestag
Member appointed by the German Bundestag

Jan Bettink
President of the Verband
Deutscher Pfandbriefbanken
Representative of the mortgage banks

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

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

Helmut Dedy
Permanent Deputy of the Managing Director
of the Deutscher Städtetag
Representative of the municipalities
(from 1 January 2012)

Prof. Dr Hans Heinrich Driftmann
President of the Association of German Chambers
of Industry and Commerce (DIHK)
Representative of industry

Ingeborg Esser
Member of the Executive Board
Federal Association of German Housing
and Real Estate Enterprises (GdW)
Representative of the housing industry

Georg Fahrenschon
Former Minister of Finance
of the Free State of Bavaria
Member appointed by the German Bundesrat
(until 3 November 2011)

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

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Senator of the Free Hanseatic City of Hamburg
Ministry of Economy, Transport and Innovation
Member appointed by the German Bundesrat
(from 17 June 2011)

Bartholomäus Kalb
Member of the German Bundestag
Member appointed by the German Bundestag

Dr Markus Kerber
Director General of the Executive Board of the
Bundesverband der Deutschen Industrie e.V. (BDI)
Representative of industry
(from 1 January 2012)

Dr h.c. Jürgen Koppelin
Member of the German Bundestag
Member appointed by the German Bundestag

Monika Kuban
Former permanent deputy of the Managing Director
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Representative of the municipalities
(until 31 December 2011)

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

Dr Gesine Lötzsch
Member of the German Bundestag
Member appointed by the German Bundestag

Stefan Mappus
Former Minister President
of the State of Baden-Württemberg
Member appointed by the German Bundesrat
(until 31 August 2011)

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

Dr Michael Meister
Member of the German Bundestag
Member appointed by the German Bundestag

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Nahrung-Genuss-Gaststätten
Representative of the trade unions

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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

Hanns-Eberhard Schleyer
Former Secretary General of the
Zentralverband des Deutschen Handwerks
Representative of the skilled crafts

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Minister of Finance of the State
of Baden-Württemberg
Member appointed by the German Bundesrat
(from 4 November 2011)

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
Former Director General of the
Executive Board of the Bundesverband
der Deutschen Industrie e.V.
Representative of industry

Carsten Schneider
Member of the German Bundestag
Member appointed by the German Bundestag

Dr Markus Söder
Minister of Finance of the Free State of Bavaria
Member appointed by the German Bundesrat
(from 16 December 2011)

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

Dr Guido Westerwelle
Federal Minister for Foreign Affairs

Photographs

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Horst Kolberg, Düsseldorf | page 9 (spatial sculpture "1956-57" by Norbert Kricke),
page 11 (spatial sculpture "Triple Curve" by Norbert Kricke, 1983–84),
page 15 (spatial sculpture "Kleine Kasseler" by Norbert Kricke, 1958)
Achim Kukulies, Düsseldorf | page 19 (spatial sculpture "Mannesmann" by Norbert Kricke, 1957)

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