

# »» Annual Report 2015

Taking  
responsibility



# KfW Group key figures

## KfW Group business activities

	2015	2014	2013
	EUR in billions	EUR in billions	EUR in billions
<b>KfW Group<sup>1)</sup></b>	<b>79.3</b>	<b>74.1</b>	<b>72.5</b>
Domestic promotional business	50.5	47.6	51.6
of which:			
<i>Business sector Mittelstandsbank (SME Bank)</i>	20.4	19.9	22.6
<i>Business sector Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)</i>	30.1	27.7	28.9
Business sector Capital markets	1.1	1.2	0.7
International business	27.9	25.5	20.5
of which:			
<i>Business sector Export and project finance</i>	20.2	16.6	13.7
<i>Business area KfW Development Bank</i>	6.7	7.4	5.3
DEG	1.1	1.5	1.5

<sup>1)</sup> Adjustment for commitments of Export and project finance with funding from KfW programme loans (2013: EUR 193 million, 2014: EUR 153 million, 2015: EUR 229 million)

## Key figures of the income statement

	2015	2014
	EUR in millions	EUR in millions
Net interest income (before promotional activity)	2,904	2,768
Net commission income (before promotional activity)	286	313
Administrative expense (before promotional activity)	1,125	1,059
<b>Operating result before valuation (before promotional activity)</b>	<b>2,066</b>	<b>2,023</b>
Risk provisions for lending business	-48	-143
Net gains/losses from hedge accounting and other financial instruments at fair value through profit or loss	478	69
Net gains/losses from securities and investments and from investments accounted for using the equity method	43	4
<b>Operating result after valuation (before promotional activity)</b>	<b>2,539</b>	<b>1,953</b>
Net other operating income	107	20
<b>Profit/loss from operating activity (before promotional activity)</b>	<b>2,647</b>	<b>1,973</b>
Promotional activity (expense)	345	364
Taxes on income	130	95
<b>Consolidated profit</b>	<b>2,171</b>	<b>1,514</b>
<b>Consolidated profit before IFRS effects from hedging</b>	<b>1,900</b>	<b>1,467</b>
Cost/income ratio before promotional activity <sup>1)</sup>	35.2%	34.4%

## Key figures of the statement of financial position

	31 Dec. 2015	31 Dec. 2014
	EUR in billions	EUR in billions
Total assets	503.0	489.1
Volume of lending	447.0	440.3
Volume of business	587.2	572.5
Equity	25.2	21.6
Equity ratio	5.0%	4.4%

## Key regulatory figures

	31 Dec. 2015	31 Dec. 2014
	EUR in billions	EUR in billions
Risk position	131.8	144.1
Tier 1 capital	24.1	20.3
Regulatory capital	24.2	21.7
Tier 1 capital ratio	18.3%	14.1%
Total capital ratio	18.4%	15.1%

## Employees of KfW Group<sup>2)</sup>

	2015	2014
	5,807	5,518

<sup>1)</sup> Administrative expense (before promotional activity) in relation to adjusted income. Adjusted income is calculated from Net interest income and Net commission income (in each case before promotional activity).

<sup>2)</sup> The average number of employees including temporary staff but without members of the Executive Board and trainees

»» Sustainably improving living conditions. That is what our work is all about.



Climate change, demographic trends and a globalised economy: people across the globe are contemplating how to meet the major challenges of our time.

KfW is one of the world's leading promotional banks. It has been dedicated to improving environmental, social and economic conditions worldwide since 1948 in accordance with its mandate from the German Federal Government and the federal states. To this end, KfW is active in all areas where promotion serves this mission.

**Change begins with responsibility – in Germany, in Europe and around the world.**



# »» Responsible Banking

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### We promote Germany

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### We promote development

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## KfW sets things in motion – experience this report interactively in three ways

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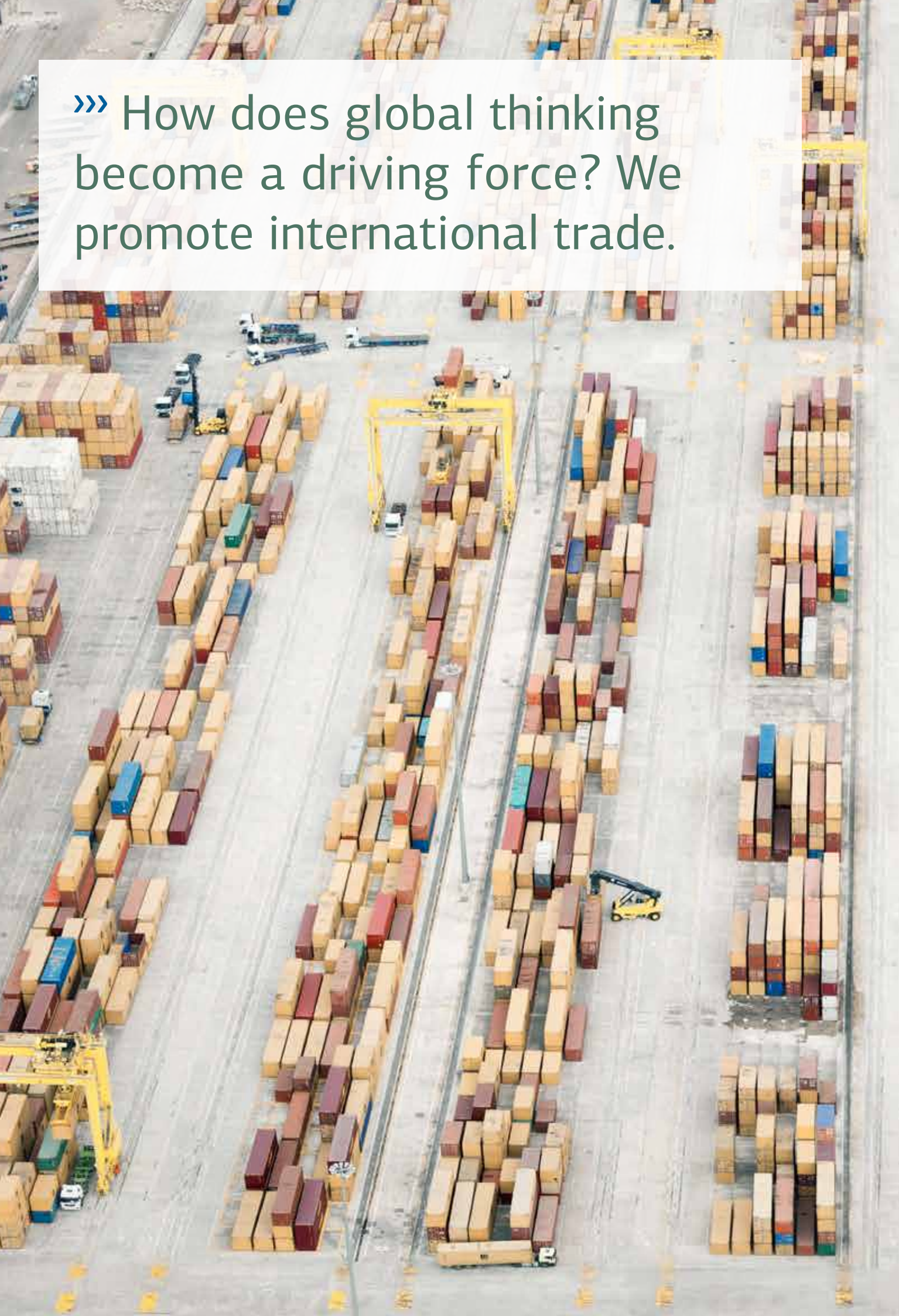
**02 | Videos** Download the free Layar app to your smartphone or tablet ([www.layar.com/download](http://www.layar.com/download)), and scan the pages marked with the icon. The video will be loaded and then played.



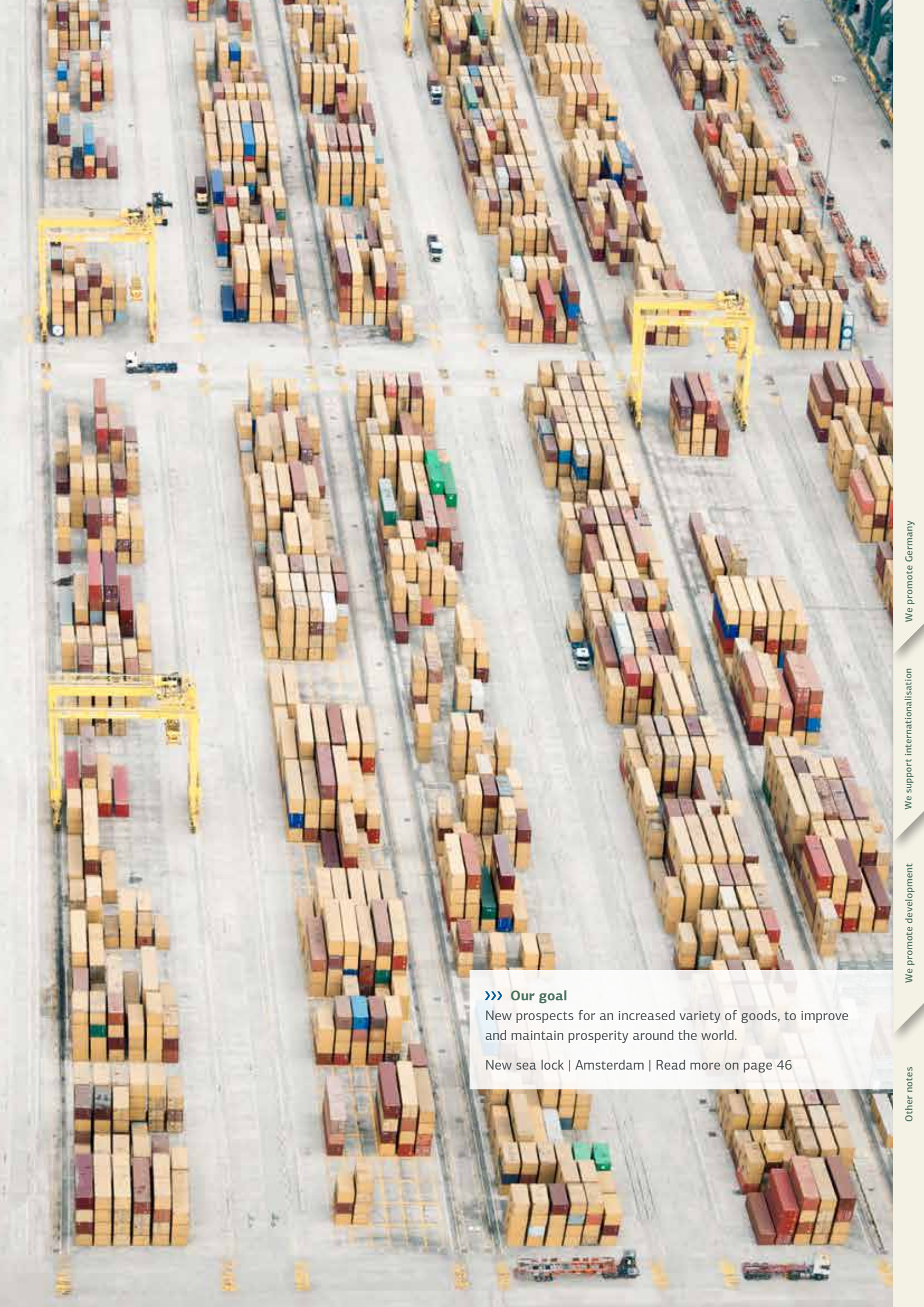
**03 | Online** Check out the Annual Report microsite at: [www.kfw.de/verantwortung](http://www.kfw.de/verantwortung)

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»» How does global thinking become a driving force? We promote international trade.







»» **Our goal**

New prospects for an increased variety of goods, to improve and maintain prosperity around the world.

[New sea lock | Amsterdam | Read more on page 46](#)

»» How do growth markets become environmentally clean? We promote climate protection worldwide.





»» **Our goal**

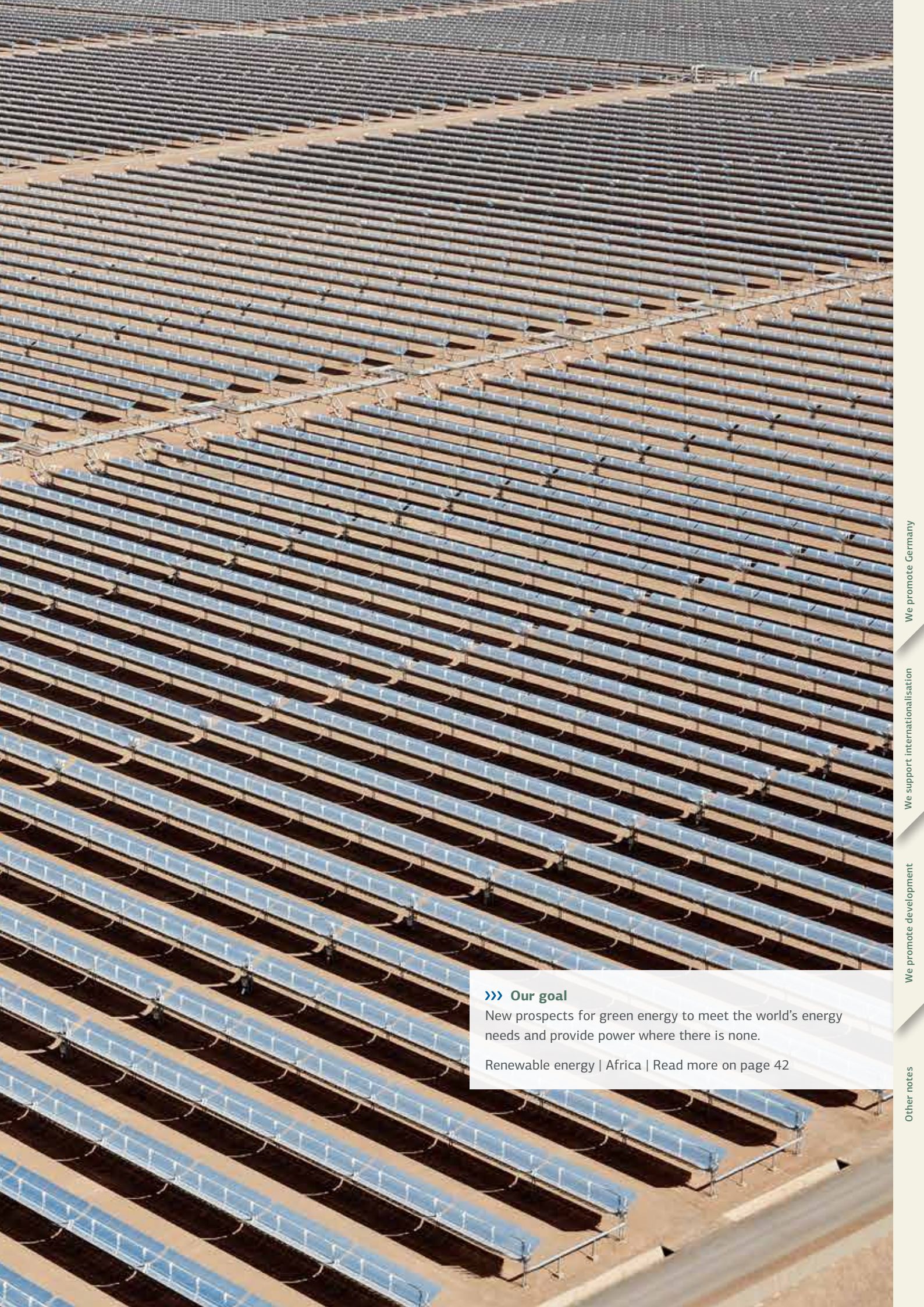
New prospects for sustainable transport concepts to meet the growing demand for mobility while conserving resources and the environment.

Traffic management | China and Brazil

Read more on page 50

»» How does solar energy lead to independence? We promote alternative energy concepts.



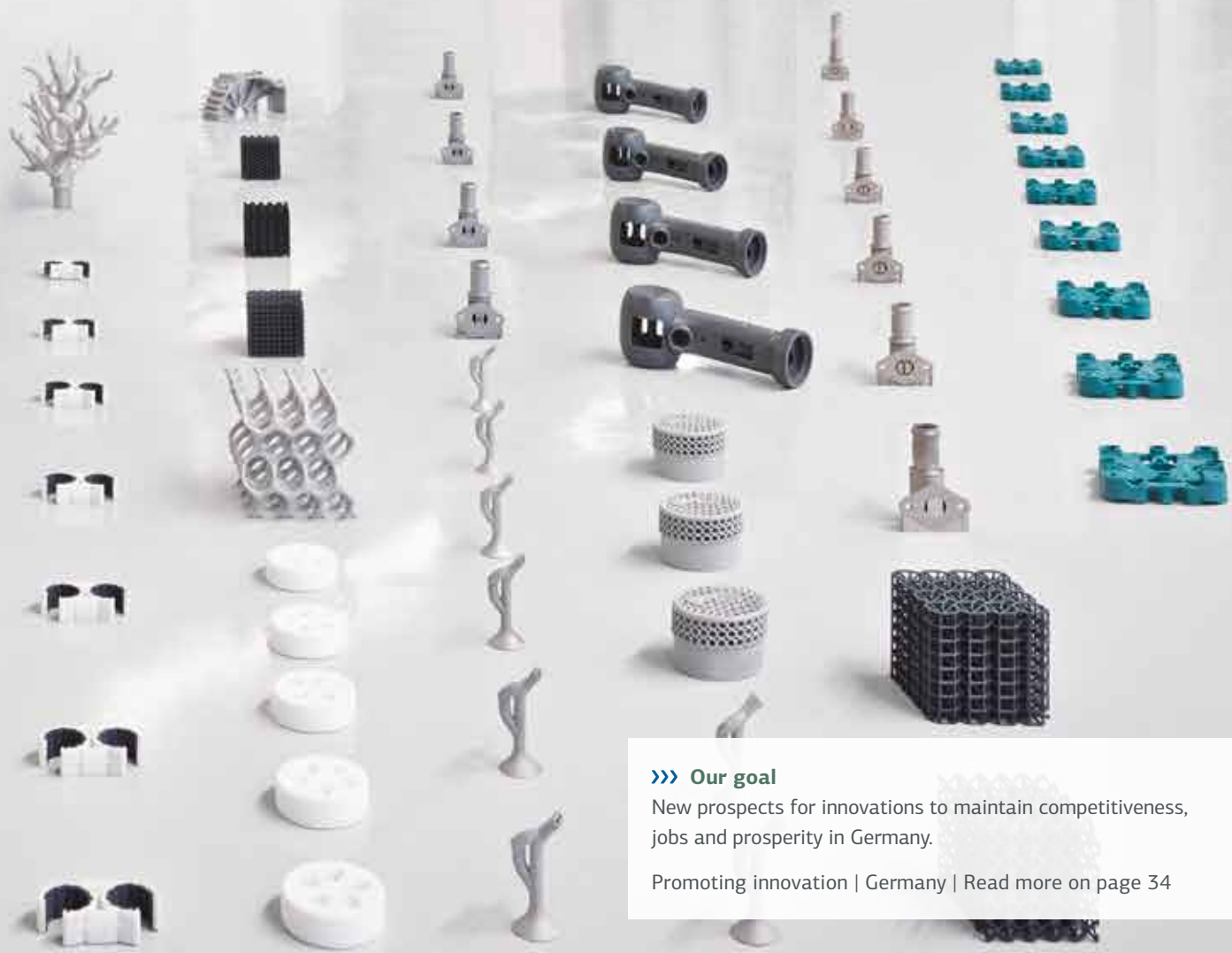


»» **Our goal**

New prospects for green energy to meet the world's energy needs and provide power where there is none.

Renewable energy | Africa | [Read more on page 42](#)





»» **Our goal**

New prospects for innovations to maintain competitiveness, jobs and prosperity in Germany.

Promoting innovation | Germany | Read more on page 34

»» How do basic services provide a secure foundation? We promote accommodation for refugees.







»» **Our goal**

New prospects for people seeking refuge in Germany. We need to rise quickly and flexibly to one of the biggest challenges of recent years.

Refugee crisis | Germany | Read more on page 19

»» We take responsibility

Our goal is to improve people's living conditions for the long term. In Germany, in Europe and around the world.



Our economy and society are in a state of constant flux. It is KfW Group's core function to offer support during these changes in a forward-looking, responsible and successful manner. On behalf of and as a partner to the German federal and state governments, we have been committed to forward-looking development of our country and to sustainable improvement of living conditions worldwide since KfW was founded in 1948. In so doing, we focus on three megatrends which will be key factors shaping economic and political action in the coming decades: climate and environmental protection, demographic change and globalisation.

## »» Using globalisation as an opportunity.

This year's annual report focuses on globalisation. KfW finances investments of German businesses at home and abroad, invests in young technology businesses and is participating in the European investment initiative ("Juncker plan") to secure Germany's and Europe's competitive position in a globalised world and to promote technical progress. The demand for such financing was consistently high in 2015.

Another reason for dedicating this annual report to globalisation is that 2015 was also characterised in Germany by the large numbers of people arriving who were fleeing war and terror. The plight of these people shows that globalisation does not only relate to the transfer of goods and data. Municipalities in particular are working extremely hard to meet these major challenges for Germany and Europe, by offering thousands of people a roof over their heads and the first steps towards integration. In the interests of fostering social cohesion in Germany, KfW launched a special programme to fund refugee accommodation in 2015. ▶

»» In addressing the major challenges, our promotional activities are aimed at helping create economic and social solutions geared to the future and sustainability.

The funds were exhausted very quickly, which shows that municipalities need help too. KfW is also active abroad in tackling the reasons for the refugees' flight at the source and supporting the countries in the crisis regions taking them in, so that people do not need to risk their lives to journey to Europe in the first place.

Globalisation is associated with risks – but as with any development, it also provides opportunities. In addressing the major challenges, our promotional activities are aimed at helping create economic and social solutions geared to the future and sustainability, and making globalisation a success story for Germany and Europe. KfW abides by this maxim not only as an institution but also in the work and commitment of each individual staff member.

This is how we aim to provide the right impetus for the future and fulfil our mandate as a bank committed to responsibility.



Dr Ulrich Schröder,  
Chief Executive Officer

## »» We take responsibility

What do we need to meet the major challenges of the global waves of refugees?





# »» We take responsibility

## »» Prospects in crisis countries and new homelands

»» KfW's interest-free special support helped to get funds to the municipalities quickly and flexibly in order to provide more initial accommodation. The next task is to support the integration of refugees and strengthen social cohesion.

Dr Ingrid Hengster, member of the KfW Executive Board

### 3.0

EUR billion  
committed by  
KfW for measures  
directly related  
to refugee aid

More information on KfW's current commitment for refugees is available at [www.kfw.de/fluechtlingshilfe](http://www.kfw.de/fluechtlingshilfe)

**KfW Group uses its expertise at home and abroad and works on behalf of the Federal Government for refugees ...**

#### ... in Germany

More refugees arrive in Germany every day. It is the municipalities' job to accommodate them. KfW provides support in the form of special promotion for refugee accommodation, which has been topped up three times due to the high demand, to a total of EUR 1.5 billion. Almost 700 municipalities had used these funds by the beginning of 2016.

#### ... in crisis and transit countries

Most refugees don't even come to Europe. That's why the business area KfW Development Bank and DEG are active abroad in helping partner countries of German development cooperation to tackle the causes of the refugees' flight, to stabilise the regions taking them in and integrating/reintegrating them.

#### ... with KfW Stiftung

The KfW Stiftung (foundation) has launched a national initiative for the economic integration of refugees, "Ankommer. Perspektive Deutschland". The aim of the project is to identify employment opportunities via an ideas competition, which will then serve as models for further development.

#### ... and with our staff

KfW staff also help refugees, as volunteers.

# »» Support that renews people's trust

Adam, 3, Al Abbas, 7, and Hamsa, 10, are afraid when they hear planes in the sky over Siegburg. The brothers are Syrian refugees who came to Germany from Aleppo with their mother Noura Al Hamdo and father Nawaf Alias some five months ago. Nawaf used to run his own pharmacy in the eastern Al-Shaar district of the city – until it was bombed. “We spent most weekends at my parents’ home in the countryside,” he said. “One time we came back to find everything in ruins – the pharmacy and our house too.”

He finds photos online of the destroyed neighbourhood, including some of his own shop; only interior walls are left. “Nobody can imagine how terrible it is there. I saw so many dead bodies in the streets. It’s impossible to live there any more.” The family first fled on foot to Turkey, and were able to come to Germany from there thanks to an invitation from a relative.

**1.5**  
EUR billion  
Emergency  
municipal aid  
programme for  
refugee accom-  
modation

They are living in new refugee accommodation near Siegburg railway station until the authorities decide whether or not they can stay in Germany. The initial reception centre with 260 camp beds set up by the town in a sports hall was soon full. So Siegburg purchased a vacant building for almost EUR 2 million to accommodate 150 more refugees. It was also fitted out with kitchens, showers and washrooms.

»» Funds have never been drawn so quickly.

[Dr Ingrid Hengster, member of the Executive Board](#)



The town of Siegburg obtained the money via a loan from KfW. KfW provided a total of EUR 1.5 billion in interest-free loans from September 2015 to January 2016, to help municipalities accommodate refugees. They were able to invest these funds in building, converting, acquiring and equipping initial reception centres. This provided accommodation for some 150,000 people. The funds were topped up three times due to the high demand.

Siegburg is one of around 700 municipalities in Germany to benefit from KfW's offering. And the town of 40,000 people is not just saving interest. “We now have a new building in our portfolio,” said mayor Franz Huhn. Municipalities still in need of



# »» We take responsibility



We promote Germany

help with financing refugee accommodation can now avail themselves of the KfW investment loans for municipalities at a reduced rate of interest.

KfW also aims to support federal states and municipalities in creating affordable permanent housing. This is to the benefit not only of refugees but of all people in Germany that need support. In consultation with the Federal Government, KfW will channel up to EUR 2 billion through the promotional institutions of the federal states to create social housing.

Nawaf Alias and his family would ideally like to go back to Syria. "We feel safe here, but we're homesick," he said. But he has no hope that the war there will end in the foreseeable future.

## 150

thousand

**New accommodation for people**

**New accommodation for**

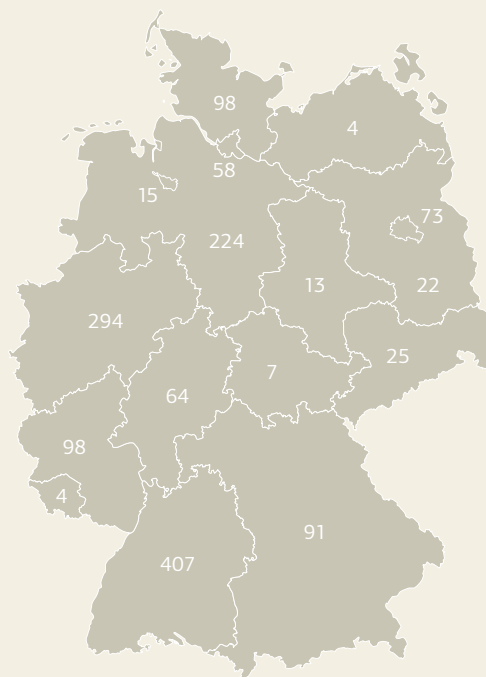
## 150

thousand

**people**

### KfW loans for refugee accommodation

Funding committed per federal state as of 25 February 2016 in EUR millions



Total volume: EUR 1,498 million

We support internationalisation

We promote development

Other notes

# »» Prompt help with a sustained effect



**KfW department head Babette Stein von Kamienski talks about KfW's commitment to refugees abroad**

**KfW has been supporting refugees in the Middle East for decades now. What form does this support take, Ms Stein von Kamienski?**

The first refugees in that region were in Lebanon and Jordan following the 1948 Palestine War. The Palestinian refugees were immediately a key target group for the development cooperation work that began with those countries at the time. What were initially refugee camps became small towns with their own infrastructure, and we provided support, such as for water supply and basic education. These two small countries have taken in the most Syrian refugees since 2011; they constitute around half of the population of Lebanon now.

**90**  
EUR million  
for 36 projects in  
Syria

## **And what role does KfW play today?**

Today at least one third of our commitment in the region is a response to the crisis. We continue to finance long-term projects that also benefit refugees, such as building schools and creating water supply systems in Jordan. But we are also able to react at short notice, and quickly secure a water supply in a refugee camp. KfW works together with the UN in such cases.

## **Has development cooperation changed since the civil war in Syria?**

The Federal Government is expanding support in terms of both region and quality. Development cooperation with Lebanon has officially recommenced for the time being. Turkey is receiving increased support and UN projects are now being financed in Syria, too. For example, Syrian refugees in Turkey have received the first aid from Germany in the form of the “winter package”; some EUR 115 million was mobilised quickly at the end of November 2015 for Jordan, Lebanon, Turkey, Iraq – and also for those suffering in Syria. The money is primarily being used for education and to protect children. The business area KfW Development Bank financed projects relating to the Syrian crisis on behalf of the Federal Ministry for Economic Cooperation and Development (“BMZ”) to the tune of EUR 520 million between 2012 and the end of 2015.

## **Is KfW independently active in Syria?**

Yes, through the Syria Recovery Trust Fund (“SRTF”), which was established in 2013. Germany is the second largest donor. We finance infrastructure projects in opposition-controlled areas, such as reinstating the electricity supply and producing food.

# »» We take responsibility

## What lessons from the crisis can you apply to your work?

At the beginning, refugee camps were set up in the neighbouring host countries, whereas now the refugees are distributed among towns and villages. Municipalities are struggling to cope with so many refugees. Schools are having to teach in shifts, accommodation is scarce and few refugees have access to healthcare. If we want to reduce the influx of refugees to Europe, we need to do more in the immediate region. The majority of refugees would actually prefer to stay in the region – but without jobs or education for their children and with only minimal food distributions from the UN, they see their only chance for survival in fleeing to Europe. We are working hard to help the refugees in the region. We have already assessed and funded two UNICEF projects for refugees within the space of just seven days – which is extremely fast for development cooperation. EUR 30 million is going to Iraq and the same again to Lebanon.

**875**  
EUR million  
for crisis  
and transit  
countries

## Are the refugees accepted by the local residents?

Most people in the region share the same religious and cultural background, which makes integration a lot easier. But the host countries have their own problems, such as very high unemployment in some cases. So refugees have not been allowed to work yet. The BMZ's "Cash for Work" initiative is designed to ease this situation. The idea is that local businesses offer apprenticeships – for refugees too – and get loans at favourable rates in exchange. There are also plans to give refugees jobs building schools and establishing a water supply. The initiative is being financed through German federal budget funds. EUR 200 million is being made available in 2016, which should enable several hundred thousand new jobs to be created. This is a good idea, because conflict research indicates that if a crisis has not been resolved within five years, it is likely to become a sustained conflict of up to 30 years. The civil war in Syria is now in its fifth year. Politicians in Jordan and Lebanon are aware of this, and their demands are growing.



## »» Commitment that makes new arrivals feel welcome

Newcomers want to feel welcome. They generally want to become part of a community and play an active role. That's why KfW employees support projects and initiatives aimed at enabling refugees to integrate.

### »» Donating school materials



Vincent Schulze  
KfW Frankfurt

The Brüder-Grimm primary school in Leipzig gained two new classes of Syrian refugee children at very short notice, which was a real challenge for the fundraising group I was involved with. We needed to get hold of backpacks, pencils and compasses overnight. We achieved this largely thanks to my colleagues from KfW, who donated a lot of supplies. The rest of the money for the items came from membership fees, raffles and bazaars. The new pupils are meanwhile already showing the first signs of progress. "We have been practising with the compasses and the children are getting better and better," said a teacher in an e-mail of thanks.

# »» We take responsibility



## »» Teaching German



Julia Kirsch  
KfW Frankfurt

I teach German to refugees from Syria, Eritrea and Somalia, so that they can manage official paperwork and dealings with authorities, visits to the doctor and shopping by themselves. We practise dialogues and use role-plays, or we go to the supermarket together. I'm a member of the "Welcome to Kriftel" task force (*Willkommen in Kriftel*) and volunteer with about 50 other people. Kriftel is a town of 10,000 people located between Frankfurt and Wiesbaden. It is important to us that all new refugees arriving in our town feel welcome and receive help with integration. My students are generally motivated and make fast progress. The first ones are already starting to make jokes – in German, their new common language.

## »» Spontaneous help



Shoaib Sheirzei  
KfW Frankfurt

My family fled from Afghanistan 25 years ago and made a new home in Germany, so I felt compelled to help other refugees myself. When more and more asylum seekers started arriving in Frankfurt, a network of hundreds of volunteers from a diverse range of countries formed within a short space of time, and I joined them. We did things like setting up refugee accommodation and distributing food there. We invited refugees to a meal to celebrate the end of Ramadan. As I am from Afghanistan myself, I was able to communicate with the Afghan refugees – and so became the interpreter.

>>> Making a home – KfW Stiftung supports the Milena refugee café

“Home is where I feel safe and secure” – this is the motto of the Milena café for refugee women and girls in the Bockenheim district of Frankfurt. Milena is a project run by the Frankfurt girls’ club (*Mädchenbüro*), which has set standards in the area of support for girls from migrant families and difficult backgrounds in the city for the past 20 years with its “safe place” concept. The girls voted to name the refugee café after a former member – Milena. The café offers basic and intensive language and literacy courses, and once a month there is the opportunity to cook and eat together. The women can also get help in dealing with authorities, chat and make new friends, and together get to know their new home city of Frankfurt better. The café receives financial support from KfW Stiftung and Linsenhoff Foundation. KfW employees are also among its volunteers.



# »» We take responsibility

## »» Doing their bit – employees support KfW Stiftung projects

Vocabulary books, colouring books, clothing, nappies, toothpaste, frying pans, suitcases, bubble mix and pasta – more than 200 boxes of items were collected in several donation drives at KfW. Some of them will go to the female refugees at the Milena café, and other recipients include socially disadvantaged young people at the Don-Bosco Centre in Berlin. “A lot of staff asked their friends and relatives and even brought new clothing to donate,” said Britta Verbeet from KfW Stiftung, who is in charge of organising the donations. “The soft toys alone were enough to people a small town, and brought smiles to a lot of faces later on.”

The boxes were provided by KfW’s Central Services, and were stacked in the foundation staff’s offices for quite some time. “We received monetary donations too, and a lot of enquiries about volunteering help.” The boxes and – in some cases unwieldy – objects were transported to their destinations by KfW’s postal and courier services along with other areas of the company. “The staff’s commitment at all locations has been relentless,” said Verbeet. More donation drives are planned.



## >>> We take responsibility for economic and social prospects



KfW Stiftung and the non-profit Social Impact GmbH give grants for sustainable concepts that offer refugees economic and social prospects in Germany.

## The country needs new ideas

A sewing machine hums by the window, on the other side of the room an ironing board, and colourful rolls of fabric line the shelves. An idea is becoming reality in a studio in the Bornheim district of Frankfurt, which could have a ripple effect throughout the country. Dressmaker Claudia Frick and designer Nicole von Alvensleben are establishing their sewing workshop “Stitch by Stitch”, where refugee seamstresses can work and share the traditional techniques of their home cultures. The studio plans to produce small batch productions for local start-up fashion labels quickly and efficiently.

The start-up is one of 14 projects to receive a grant under the “Ankommen. Perspektive Deutschland” project, which is sponsored by the KfW Stiftung and non-profit Social Impact GmbH. The stipend programme launched in August 2015 under the patronage of Federal Minister for Economic Affairs and Energy Sigmar Gabriel supports projects and initiatives that develop sustainable concepts to provide work for refugees, and enable them to become productive members of German society and economy.

The ideas should be economically viable and transferable; other businesses are invited to adopt the concepts, too. Around 190 start-ups and socio-entrepreneurial initiatives have applied to the programme. “There were so many creative and sustainable ideas that we decided to support

14 projects instead of 12,” said the programme director of KfW Stiftung, Dr Martina Köchling. The projects range from catering through programmer training courses to part-time continuing education mentoring programmes of and for young people. Coaching has also been provided to the grant recipients since November 2015. The three best projects will each be awarded start-up funds of EUR 20,000 in June 2016. “The entrepreneurs also have the support of tandem partners after the stipend period is over, who will advise them on realising their business idea for the long term,” said Köchling.

Stitch by Stitch has already employed its first seamstress – a young woman from Syria, who had started studying fashion design back home. She is also learning German through working so closely together with the company founders, who aim in the long term to make their studio a training centre. They hope to find new talent in Frankfurt’s Milena refugee café (see previous page), among other places.

 **Ankommen.**  
PERSPEKTIVE DEUTSCHLAND

Gefördert von: **KFW** STIFTUNG



## »» We take responsibility

We are driven by the desire to enable globalisation and technical progress to reach all people, businesses and societies worldwide, and thus offer them sustainable prospects.



Product and  
process innovation

»» In which areas does KfW take responsibility for globalisation and technical progress?



### International division of labour and location attractiveness



### International trade and infrastructure



### Three areas, one common goal: to create prospects

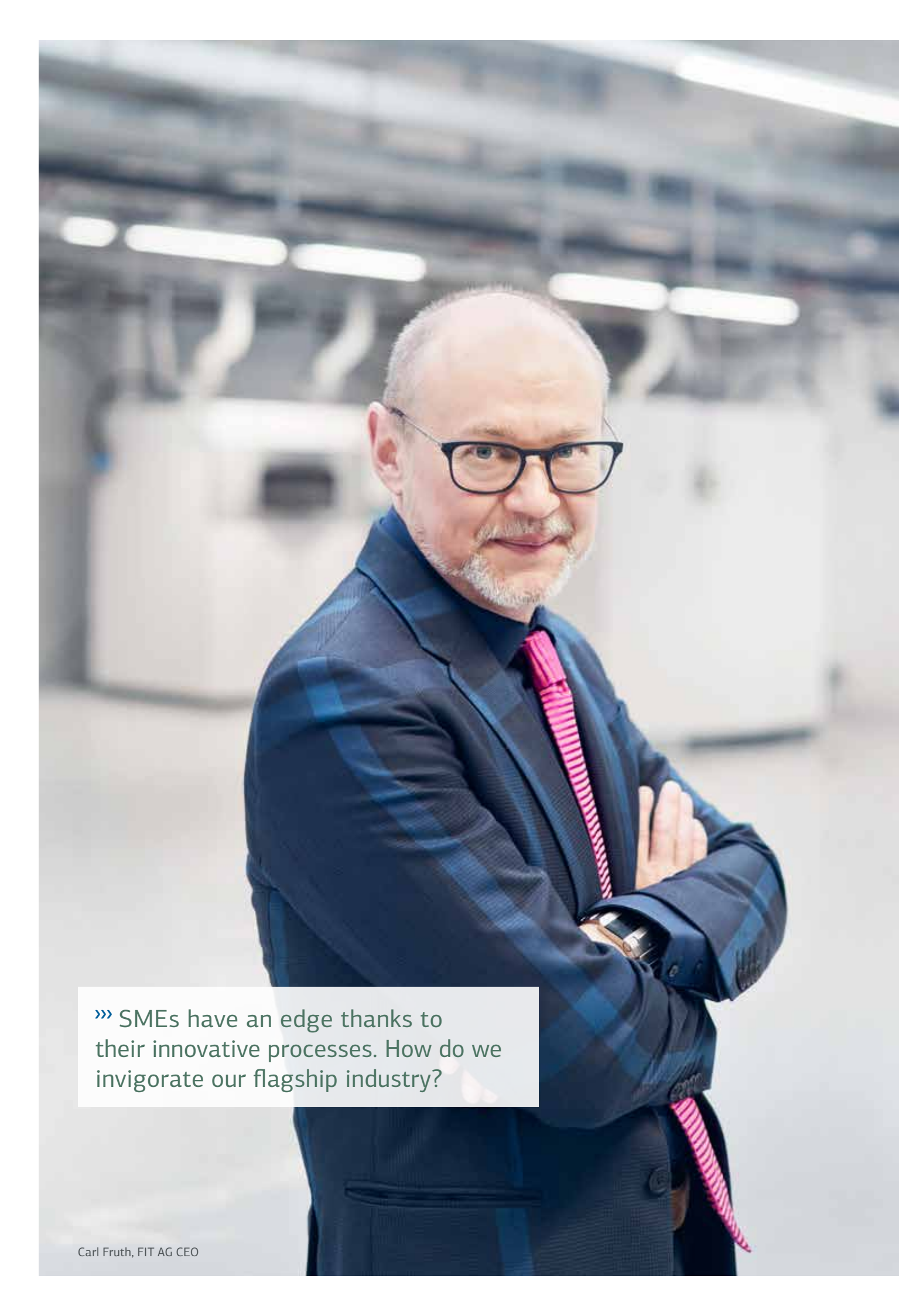
KfW promotes new ideas, products and services, and in so doing helps to lay the foundation for an innovative society. **Innovations** lead to new prospects for achieving and maintaining prosperity. We support the **international division of labour and location attractiveness**, and in so doing, help to drive economic competitiveness around the world. We also contribute, by way of infrastructure projects, to boost **international trade** and thus the global economy.

We promote Germany

We support internationalisation

We promote development

Other notes

A portrait of Carl Fruth, CEO of FIT AG, standing in a factory. He is wearing a dark blue suit jacket, a dark blue shirt, and a pink and white striped tie. He has a grey beard and is wearing glasses. His arms are crossed, and he is looking towards the camera with a slight smile. The background shows industrial machinery and bright overhead lights in a factory setting.

»» SMEs have an edge thanks to their innovative processes. How do we invigorate our flagship industry?

# »» Innovative start-up spirit – additive manufacturing in Germany’s Upper Palatinate



“High tech made in Lupburg” – FIT AG manufactures both the skull model and the custom-fit titanium implant within just a few days using additive processes.

The ruins of Lupburg Castle tower over the peaceful valley of the Schwarze Laber river in the Upper Palatinate region, between Regensburg and Nuremberg in Bavaria. But far beneath the castle, objects are produced through additive manufacturing (also known as 3D printing) and distributed to customers around the world. FIT AG is the hidden champion of the high-tech industry, and has been receiving KfW support for two years now.

**Growing demand in medical technology**  
FIT AG, an additive manufacturing group, was named for its founder Carl Fruth.

Fruth established the unlisted company in 1995 and is active in the areas of rapid prototyping and additive design and manufacture (“ADM”) via its subsidiaries FIT Prototyping GmbH and FIT Production GmbH.

The Bavaria-based group has an excellent reputation – particularly in the medical technology sector. FIT AG specialises in high-quality implants and instruments made of titanium, metal and plastic, produced using additive manufacturing. Demand is also on the rise in automotive technology and the aerospace sector.



Find out more:  
download the free Layar app  
(see page 4) and scan the page.



» Additive manufacturing requires the production line as we know it to be digitalised. We have been working on precisely that for ten years, which makes our speed, efficiency and quality better than our competitors’.

Carl Fruth, FIT AG CEO

Objects produced in additive manufacturing are not pressed or cast, but built up in layers of material based on a 3D data set. In medicine, such data may now come from a CT scan, and is turned into 3D data using proprietary software before being transferred to the machine controls. The machine breaks down the 3D model and recreates the object layer by layer. These layers may be as little as several thousandths of a millimetre thick. This allows exact shapes to be formed, such as implants, which are not only tailored to the patient, but also meet the medical requirements and ISO certifications, and are available quickly. Digital manufacturing processes with additive technologies are in line with Industry 4.0 principles. FIT AG is a pioneer in this industry of the future.

»» Our contribution  
**KfW supports SMEs with products such as the low-interest loans from the “ERP Innovation Programme”. These provide long-term funding for the development of new products, product processes and services. 2015 saw promotion of innovative plans from SMEs totalling around EUR 620 million under the “ERP Innovation Programme”.**

Germany’s future as a centre for technology depends largely on forgers of creative ideas and innovations like FIT AG. They show that to make a permanent mark on the market you have to be flexible, adapt your products or services to customer requirements and identify trends early on. But innovations need capital – and inves-

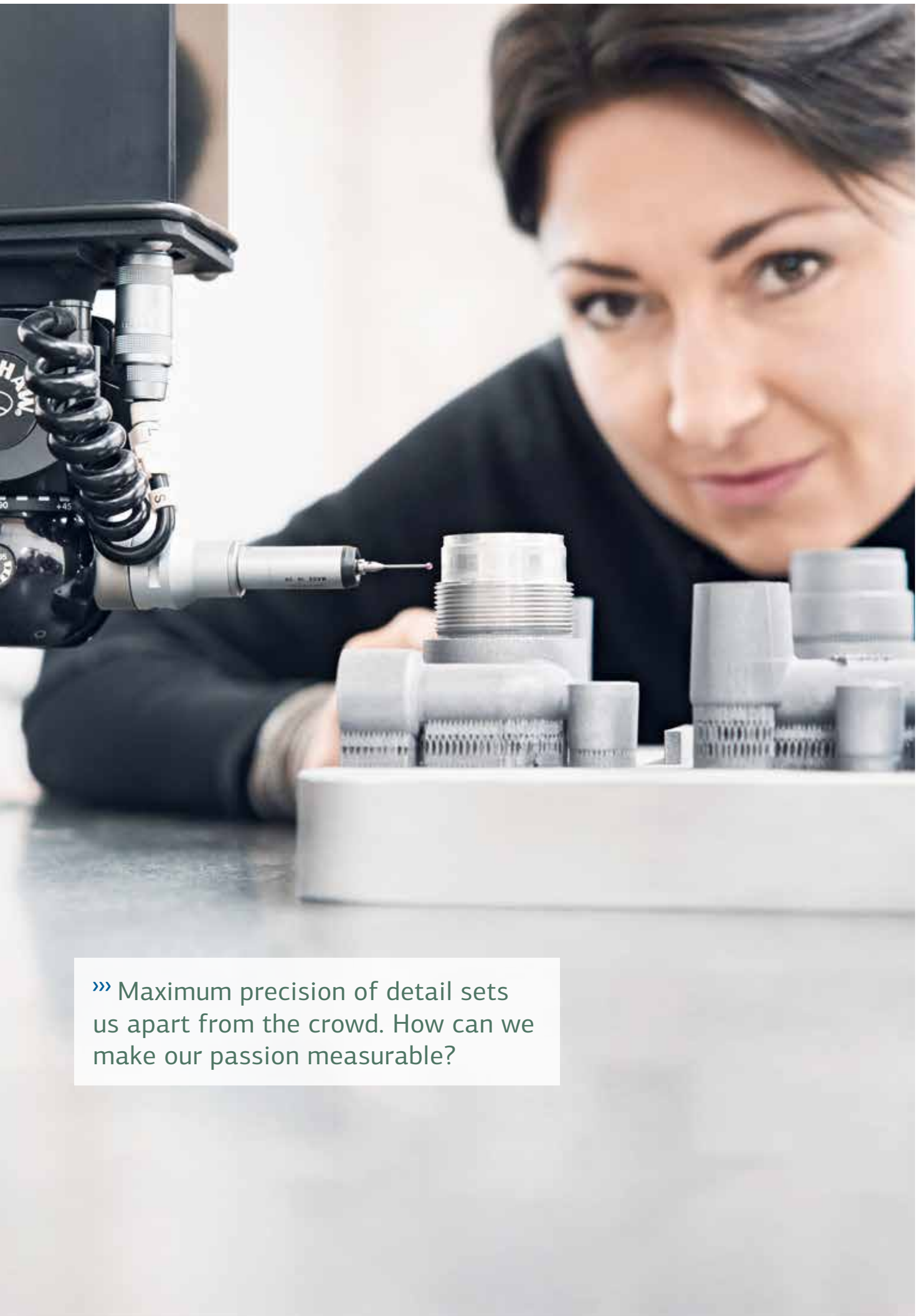
tors initially have no guarantee of success. This is precisely where promotional bank KfW sees its responsibility.

The technical specialists at FIT are also benefitting from KfW’s “ERP Innovation Programme”. FIT used EUR 2.6 million from the programme in 2015 to finance projects including developing a system to prepare 3D print data and a special laser production facility. The company had already received EUR 3.6 million in promotional funds from KfW in 2014, which it used to develop new machinery control software, among other projects.

### **New jobs in the Upper Palatinate region**

The SME sector poster child generated sales of EUR 17 million in 2015 and employed more than 200 people at the company’s headquarters and its sites in Hamburg, and Santa Clara, California. Women make up 40% of the total staff, which is a fantastic rate for an industrial manufacturing company. The world’s most powerful plant to focus entirely on industrial additive serial production commenced operations in Lupburg at the beginning of 2016 – a “real milestone” for founder Carl Fruth.

This brings Fruth that much closer to his goal of becoming one of the world’s leading contractors for additive manufacturing. The region has also profited from the start-up spirit of FIT AG. “The new production facility will create a lot of new jobs,” said Fruth, who is already one of the largest employers in the Upper Palatinate. The investment is therefore also a commitment to the region – and to Lupburg.



»» Maximum precision of detail sets us apart from the crowd. How can we make our passion measurable?



»» Microalgae – a renewable raw material and a perfect fuel for the future. How can we use our expertise for different sectors?

The assembly team at the Degerloch site in Stuttgart



Subitec's pilot facility in the Weitingen area of Eutingen



# »» Microalgae are real all-rounders – KfW is investing in a biotech start-up

Biologists have long since maintained that microalgae are the raw material of the future. The tiny sea-dwellers – invisible to the naked eye – contain valuable proteins, plenty of unsaturated fatty acids and are even richer in oils and vitamins than common macroalgae. Microalgae are real all-rounders. Due to their precious ingredients, they are especially useful in cosmetics, pharmaceuticals, but also in the foodstuffs industry. What is more, microalgae can be used to generate cleaner energy, too.

Algae have even more benefits compared with conventional land plants, since they are five to ten times more productive in comparison. Around 50% of atmospheric oxygen is produced by marine algae.

Professor Dr Walter Trösch realised just what potential the nutrient-rich microalgae have at an early stage. The former Head of the Department of Environmental Biotechnology at the Fraunhofer Institute for Interfacial Engineering and Biotechnology (IGB) in Stuttgart has worked with the marine plants for more than 20 years. Subitec started its operational business in 2007 when Managing Partner, Dr Peter Ripplinger, was appointed. Nowadays, Subitec is one of the leading technology suppliers in the field of microalgae cultivation. The goal is to utilise almost all the algal biomass in a materially and energetically meaningful way.

## The photobioreactor – already in third generation

In the first few years after it was founded, Subitec worked in close cooperation with the Fraunhofer IGB to process a variety of algae strains and later went on to develop the so-called flat-panel airlift (FPA) photobioreactor. Compared with conven-

tional photobioreactors, it is both more efficient in monitoring temperature and more accurate in checking the microalgae's pH value and gas exchange. Also, the production capacities can be scaled in a rather flexible way due to the modular set-up. At night, the algae get additional air pulsing to avoid sedimentation.

Subitec had the high-tech reactor patented back in 1999 already. Now, the technical achievement is already in the third generation – and word of its success has spread. Indeed, Subitec is presently preparing to launch the fully automated FPA technology on the global market.

## Investors are facilitating ambitious growth plans

In summer 2012, the Stuttgart-based company received help with its expansion plans from KfW within the context of the "ERP Start-up Fund". This support was given in the form of equity capital, rather than loans. KfW and eCAPITAL, the Münster-based cleantech investor, as new investors provided EUR 3.2 million of the EUR 4.5 million capital required for the expansion. The High-Tech Gründerfonds (HTGF) and Fraunhofer Venture – two long-standing investors – were also involved in the financing.

When it comes to equity or deposit financing, a company receives support from new or existing investors. They generally take a direct stake in the company. The equity financing instrument can be used to establish companies and also for subsequent capital increases. In principle, the investors acquire an interest in the profit, loss and liquidation proceeds, but also assume the company's full risk, too.

### **25 engineers and biologists set to work at headquarters**

This type of financing is a huge opportunity for Subitec. The investors' funds allowed the company, which is fully focused on sustainability, to purchase the new, 700m<sup>2</sup> site in the Degerloch area of Stuttgart in 2013, to press ahead with international projects and to commission the first production facility for valuable substances, which was planned and supplied especially for a European customer, in 2015.

Subitec has ambitious plans and aims to continue growing. The company is planning to take on more staff for precisely this purpose; 25 members of staff are to be hired at the company headquarters in the Degerloch area of Stuttgart alone. This will allow the company to continue focusing on its ecologically sustainable and resource-friendly production operations.

### **>>> Our contribution**

Together with the Federal Ministry of Economic Affairs and Energy (BMWi), KfW is promoting innovative start-ups and technology firms such as Subitec by strengthening their equity capital. This happens at different company development stages. With the "ERP Start-up Fund", KfW and private lead investors are directly involved in a young company's foundation phase. This product also remains available for follow-up financing in the case of existing portfolio companies. The "ERP Start-up Fund" as a financing instrument for initial investments was replaced in spring 2016 by public co-investment fund "coparion" that together with private investors directly invests in innovative start-ups and young technology firms. Coparion is an independent company with an experienced management team. Second

to the German Federal Government, KfW is also the biggest investor in the High-Tech Gründerfonds (HTGF), which is the largest early-stage investor in Germany. To help innovative companies in their growth stage, KfW indirectly – through intermediate venture capital funds – invests in young companies through the "ERP Venture Capital Fund Investments", a promotional instrument created together with the BMWi.



»» We take responsibility for securing the supply of raw materials



## High-tech German silicon smelter in Skjálfandi bay, Iceland

The autumn weather in the stark island nation of Iceland, just south of the Arctic Circle, was mild when the country's prime minister Sigmundur Davíð Gunnlaugsson cut the ribbon in the colours of the German and Icelandic flags in the town of Husavik in September 2015. The ceremony marked the beginning of construction work on the Duisburg PCC SE group's most important project of the moment. The chemical, energy and logistics company is building a state-of-the-art and environmentally friendly silicon metal production facility in the north of Iceland, which is designed to produce over 32,000 tonnes of high-purity silicon per year. "The EUR 265 million project is a step towards securing the future supply of raw materials for German industry," said Waldemar Preussner, founder and Chairman of the Administrative Board of PCC. Silicon metal is used in the aluminium, electrical and solar energy sectors.

This is just one reason why KfW IPEX-Bank is supporting the project. The KfW subsidiary, responsible within the group for granting loans to safeguard the supply of raw materials in Germany and Europe, is contributing around EUR 170 million to the project. It is the first large-volume commercial project financing of this type in Iceland. The PCC project is also receiving an untied loan guarantee from the Federal Republic of Germany due to its significance for raw materials policy. Iceland has pledged tax relief. PCC and its partners are set-

ting standards in Husavik. The silicon smelter in the Skjálfandi bay is scheduled to commence production in 2018. Düsseldorf company SMS Siemag AG is the constructor. Power will be delivered to the PCC BakkiSilicon plant by energy provider Landsvirkjun from renewable energy sources. This will enable PCC, which stands for "Petro Carbo Chem", to calculate its electricity prices for the next 15 years, Preussner commented at the ceremony. "The location, the people, the project – they all go together so well. Iceland is ideal for this facility," he said.

It is also ideal for the region surrounding Husavik, which means "bay of houses". The PCC silicon plant will create 120 new jobs there.





»» Green electricity guarantees access to better living conditions. What's the best way to ensure that as many people as possible benefit from our smart idea?



A trainer instructs prospective installation technicians on the roof of the Mobisol Academy.  
A solar home system can be installed down the line by just one technician.

# »» Clean energy – new prospects for Africa through sunshine and mobile phones



Find out more:  
download the free Layar app  
(see page 4) and scan the page.

Drones operated by solar energy will enable Mobisol to deliver more quickly to its customers in East Africa. The project is currently in the pilot phase.

The Berlin start-up Mobisol will soon be able to reach its customers in East Africa by air. Solar-powered drones, currently being tested in a pilot phase, deliver packages to the remotest of villages much more quickly and cheaply than is possible with four-wheel-drive vehicles in the African savannah. Acceptance among the customers and technical feasibility will be assessed at the end of the test period.

High-tech air delivery would be the latest chapter in an incredible success story. In the space of just five years, Mobisol has become an important source of impetus for the East African economy. By the autumn of 2013, the company had sold 1,800 solar home systems in Tanzania

and Rwanda; a year later it was 9,000 and in autumn 2015 as many as 30,000.

In this way, founder Thomas Gottschalk and his team have enabled people in developing countries to use electronic devices. Three quarters of the population – seven million families in Tanzania alone – are not connected to the national power grid. When travelling in the region, Gottschalk got the idea of using photovoltaics to give people access to modern communications and electrical technology, thereby connecting them to the Internet and the rest of the world.

The vision became reality in a start-up company in 2010, and only six years later,



## »» We are not trying to adapt African markets to European ways, but instead to attune our offering to African needs.

Thomas Gottschalk, founder and CEO of Mobisol

Mobisol is a model for success. The number of staff has doubled on average every year since the start (currently 400, of which 300 in East Africa) and revenue has trebled. The impressive development was helped by financing and promotional funds from KfW subsidiary DEG, which has supported the Berlin-Kreuzberg-based company since the early days. The latest DEG financing is intended to provide an additional 150,000 people with access to electricity through Mobisol systems.

### Payment by text message

Mobisol customers lease their solar home systems, which cost between EUR 500 and EUR 1,300. They transfer the money by text message using the mobile payment system M-Pesa in up to 36 monthly instalments. There are various models

available, from the 80-watt model, which runs primarily small and medium-sized electronic devices such as radios, TVs and phone chargers, to the 200-watt model, which would be enough to power a fridge or hi-fi system as well.

Mobisol provides local training for partners at two of its own "Akademies". More than 750 technicians, installers and sales staff have been trained to date in one-to-two week courses; 400 of them are already working freelance for Mobisol. Technicians guarantee repairs within 48 hours. They receive the assignments via Internet from a database in Germany, which in turn is updated via a GSM modem every three minutes on the status of every Mobisol system. The Mobisol technology serves to support more than 10,000 micro enter-

prises in Tanzania and Rwanda. These provide services such as recharging mobile phones, showing sports events on TV and selling cold drinks. Over 30% of Mobisol customers use solar power for business purposes.

The company plans to expand into other countries in 2016; it has already tested its business model in Bangladesh, India and Kenya.

### »» Our contribution

**KfW subsidiary DEG finances sustainable projects in developing and emerging market countries. It has already supported Mobisol GmbH through various growth stages since it was founded in 2010. It provided the company with funds from the Federal Ministry for Economic Co-operation and Development (BMZ)'s "develoPPP.de" programme for a pilot project in 2012. This enabled Mobisol to finance some 2,000 solar home systems. Two financings followed from the "Upscaling" programme, designed to promote innovative business models.**

**DEG then provided Mobisol with a convertible loan in 2015 to fund expansion plans, and made an investment in the company. This means Mobisol can continue to reap success and enable another 10,000 micro enterprises to generate regular income.**



Work is progressing on the world's largest solar farm in Morocco with KfW's support. The first of four power plants started operating in February 2016. It has a capacity of 160 megawatts and will generate electricity for 350,000 people. When all four plants are complete near the southern Moroccan town of Ouarzazate in the next few years, the total output will be 580 megawatts, providing power for some 1.3 million people. This will avoid carbon emissions of at least 800,000 tonnes per year compared to conventional generation methods.

## >>> We take responsibility for expanding broadband Internet




### Neumünster – a broadband oasis

Germany is a global economic and technology centre, proud of its engineers and industry – but it has a lot of catching up to do when it comes to digitalisation. Alexander Dobrindt, Federal Minister of Transport and Digital Infrastructure, has set the target of providing all households with broadband Internet at a speed of 50 Mbps by 2018. But there are still broadband black spots on the map – people cannot surf the Internet quickly on either a computer or a smart phone in many rural areas – such as Schleswig-Holstein.

Residents in the northern-most federal state have been complaining about the poor Internet reception for years. Towns have set up initiatives, approached politicians and searched in vain for telephone providers. But the answer is usually the same – it would be too much money for too few customers. The expensive expansion is not generally worth it for the providers. Modern cables are difficult to lay in the countryside. And the existing copper cables are not sufficient to ensure a usable Internet connection for homes. This affected 1,110 villages in Schleswig-Holstein. By the summer of 2014 only 180 of them were connected – and progress is still slow since.

The story is very different in Neumünster, where KfW granted the municipal utilities providers a loan of EUR 3 million to accelerate the expansion of the broadband infrastructure. And it was successful – around 7,000 utilities customers were connected to the fibre optic network in 2015 and can now surf the Internet at a speed of at least 50 Mbps. The Neumünster municipal utilities are concentrating on connecting the rural surrounding area, and gradually also the urban districts of the central Schleswig-Holstein town. KfW supports municipal investors on behalf of the Federal Government, with low-interest loans from the IKU programme (Investment Loans for Municipal and Social Enterprises) to finance infrastructure projects such as expansion of the digital infrastructure.

Neumünster is now something of a broadband oasis, with a clear advantage from the high-speed Internet. It is not only the near 80,000 town residents who benefit from the digitalisation, but also the industry based there, the local business agency and the town's well-known Holstenhallen exhibition centre.



»» Goods from all corners of the world need a safe route into port. How can we expand our future prospects?



# »» XXL sea lock – Amsterdam enlarges its gate to the world



The Netherlands is among the world's top export nations. The new sea lock in the North Sea Canal opens up new growth prospects.

## Room for a new generation of ships

The world's largest lock is due to open in IJmuiden, the Netherlands, in 2019. It will allow even wider container ships and larger cruise liners to pass through the North Sea Canal and directly access the Port of Amsterdam around 25 kilometres away.

The world-famous canal sees 8,000 to 9,000 freight and passenger ships pass through it and its four locks every year. The largest and most important of these, the Noordersluis lock, is to be replaced by a new technologically sophisticated lock, co-financed by KfW IPEX-Bank, with

construction beginning in 2016. This is a project of large dimensions; at 500 metres long, 70 metres wide and 18 metres deep, the new lock will be even bigger than the world's current largest in Antwerp. This new construction is urgently needed, as the old lock is already outdated in terms of technology, and much too small for the increasingly larger ships. The new lock will offer plenty of room for the next generation of gigantic bulk freighters, container ships and cruise liners. Waiting times will also be reduced, as the lock will be usable at all times, regardless of tides. Moreover, it will protect the area surrounding Amsterdam from flooding.

»» Infrastructure is one of the basic foundations of society – it is key to ensuring quality of life, mobility and prosperity.

Christian K. Murach, member of the Management Board of KfW IPEX-Bank

The new lock will cost in excess of a billion euros to construct. Around EUR 600 million will be coming from the Dutch government in The Hague, and KfW IPEX-Bank will be providing loans of a further EUR 500 million as part of a syndicate with six other banks. The winners of the international tender were two Dutch construction groups, Royal BAM Group and Volker Wessels, which were awarded the contract following a long debate as to whether this major project of vital importance to Amsterdam's economy would actually be realised.



#### Hub for global exchange of goods

The port operator battled hard for a new lock for 15 years before the authorities agreed on the technical and financial conditions in the summer of 2015. The decision was as groundbreaking as the construction of the first locks in IJmuiden 140 years ago. The first two were built in 1876, the third was added in 1896 and the famous Noordersluis lock in 1929. At 400 metres long, 50 wide and 15 deep, it was unique in the world for its time and even exceeded the record holder on the Panama Canal. Around a million ships have

passed through the Noordersluis in the past 85 years.

The Amsterdam port area is one of the most important logistics hubs in the world. With freight of 95 million tonnes handled per year, the port is the fourth largest in western Europe. Its central location is a particular reason for this; the port of Amsterdam offers excellent links to the key European markets, be it by boat, train or road. It is the world's largest port for petrol and cocoa – both of which are transported onwards in large volumes to Germany.

Good transport networks are vital for the worldwide exchange of goods. This is why KfW IPEX-Bank, as one of the largest international specialist financiers for infrastructure, lends its support to the expansion and maintenance of road, rail, energy and data networks, airports and seaports – and even locks such as IJmuiden's, which lays a cornerstone for further growth in Europe.

#### »» Our contribution

**KfW IPEX-Bank is financing the construction of the new lock in cooperation with five international commercial banks and the European Investment Bank (EIB). The seven banks are providing a total of approximately EUR 500 million for the project via a complex PPP (public-private partnership) financing structure. The construction of the lock in IJmuiden is expected to take four years, and the loans will be repaid over the 26-year operational life of the lock. The project is part of both the Dutch lock programme and the Trans-European Networks (TEN), which are supported by the EU.**



# »» Modern mobility for cities in China and Brazil

Although China and Brazil are almost 17,000 km apart, their megacities experience similar problems. They are growing at a lightning rate with ever increasing populations.

However, big cities are also growth drivers for prosperity in both countries. They are home to an expanding middle class, whose consumer habits are changing, and for whom mobility is increasingly a status symbol. Ever more people prefer to travel by motor scooter or in their own car to work rather than squeeze onto perpetually overcrowded buses. The growing megacities in emerging market countries in particular do not have efficient transport infrastructures and are becoming overburdened with the rapid rise in population. There are permanent traffic jams, street noise, traffic accidents and air pollution. Seventy percent of global greenhouse gas emissions come from large cities around the world.

For instance, the smog in Beijing impacted life and business for weeks at the end of 2015. Rio de Janeiro's lack of control over its traffic problems will likely come to the fore in August 2016 when an influx of visitors descend on the city for the Olympic Games. KfW Development Bank is helping both China and Brazil to

develop climate-friendly mobility systems, on behalf of the Federal Government.

Brazil is one of the largest economies in the world. KfW Development Bank and the Brazilian Development Bank (BNDES) used the occasion of the German-Brazilian government talks in Rio de Janeiro in August 2015 to sign a loan agreement in the amount of EUR 265 million. These funds are intended for local public transport investments that have a positive effect on climate change, such as urban rail systems or energy-efficient buses. One of the measures is the new light rail system without overhead lines in Rio, the "VLT Carioca" – the first of its kind in Latin America.

"The residents of the majority of Brazilian cities have to put up with perpetual congestion and insufficient local public transport," said Stephan Opitz, member of management at KfW Development Bank. "In cooperation with the BNDES we are helping the cities to establish modern transport systems." The two banks complement each other well, with a 50-year history of German-Brazilian cooperation for sustainable development.

Emerging markets such as Brazil can only reach their climate protection targets if

also in the transport sector they make the transition to energy-efficient technologies and integrated local public transport systems. With KfW on board, several problems can be addressed. In particular, the poorer section of Brazilian society will be able to use public transport in future, giving them more mobility. Emissions of pollutants and greenhouse gases will also be reduced.

## »» Our contribution

**KfW Development Bank and the BNDES are promoting the climate-efficient modernisation of urban transport systems in Brazil with their Brazil programme totalling up to USD 1 billion. KfW is providing the Brazilian bank, the borrower and party responsible for the programme, with a low-interest development loan of the USD equivalent of EUR 265 million. The BNDES will pass the funds on to private and public investors. KfW Development Bank is participating in the project on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ).**

»» We are helping the cities of Brazil to create modern transport systems, and thereby helping to protect the global climate and environment.

Stephan Opitz, KfW Development Bank

KfW Development Bank is also doing similar work on the other side of the world. The 2.4-million city of Huainan in eastern China may be among the smaller cities in the country, but its population and economy are also growing at top speed. Residents suffer air pollution and traffic jams as a result there too. The proportion of private car owners will be as high as in industrialised nations by 2020.

KfW Development Bank is investing in a technology-based, intelligent transport system in Huainan to get the traffic flow under better control; the aim is to use GPS data, for instance, to both record and navigate traffic flows more efficiently. The traffic light and traffic control system is also to be automated, which will improve

capacities at certain traffic intersections, allow more cars to remain in the traffic flow and minimise bottlenecks.

Local public transport is to be given priority on the streets of Huainan in future – it will be given right of way at crossings and on busy roads, for instance with additional bus lanes. Passengers will receive real-time information about connections and an electronic ticket system is to be introduced. These measures will serve to greatly improve local public transport and make it a real alternative to the car. The next step is to improve rail services to remove more traffic from the streets. This would also reduce the number of deaths caused by road traffic.

### »»» Our contribution

**KfW Development Bank on behalf of the BMZ is financing the Intelligent Transportation System (ITS) project with a promotional loan of EUR 15 million, to make sustainable improvements to the traffic situation in Huainan. This is a pilot project of sorts; if it is successful, it is to be replicated in other Chinese cities. The technology and scientific expertise for the project is being provided in cooperation with the German Aerospace Centre (DLR).**





## How the port city of Beira, Mozambique, is being protected from the effect of climate change

Beira, one of the country's most important ports, is located directly on the Indian Ocean. But its coastal location also has its disadvantages; large areas of the city centre are only slightly above sea level, and so suffer from regular flooding. The region is also subject to cyclones with heavy rainfall – a consequence of the progressing global warming which affects many developing countries. Beira is the city most at risk from the effects of climate change in Mozambique. The frequent floods not only rob people of their homes, but also cause diseases such as malaria to break out, as entire neighbourhoods are often under water for weeks at a time.

Active in Mozambique since the 1980s, KfW is supporting the city of Beira on behalf of the BMZ in order to protect the local people from the effects of climate change.

Work has been underway since March 2015 on the rehabilitation of the Rio Chiveve river bed and construction of a tidal outlet, financed through BMZ funds in the amount of EUR 13 million. As a tidal river, the Chiveve originally functioned as a natural storm water drain for the city. However, the collapse of a bridge blocked the mouth of the river, meaning that the water cannot drain in the event of heavy rainfall.

This project aims to restore the natural storm drain effect of the Rio Chiveve by removing the waste and sludge from the bed and banks of the river. The rehabilitation of the river will

restore the natural reservoir capacity, allowing heavy rain to be better absorbed. At the same time, the new tidal outlet will prevent storm floods from reaching the city. The road along the port connecting the city centre to the industrial area is also to be rehabilitated, to restore this key route.



Phase two of the project will see a park designed and created along the banks of the Rio Chiveve. This “green lung” replanted with mangroves in the centre of the city will play several important roles: maintaining the Rio Chiveve as a storm drain system, enhancing the city centre area and providing the city's residents with an attractive recreational area, the long-term preservation of which is vital in the age of increasing urbanisation.

»» We take responsibility

It's our job to support forward-looking projects. The KfW Awards allow good ideas to shine.

# »» Awards for commendable start-ups and building projects

KfW gets up close and personal with development in Germany by honouring particularly deserving projects of private builders and entrepreneurs from a wide range of sectors. These serve as inspiration, and enable forward-looking trends to become everyday practice. KfW's support not only takes the form of low-interest promotional loans, but also holds up particular commitment as an example and rewards it with prize money.

## »» The "Construction and housing" KfW Award

The "Construction and housing" KfW Award recognises builders with an eye to the future. As one of the largest promoters of home ownership in Germany, KfW introduced its "Construction and housing" competition in 2003.

The aim of the competition is to motivate sustainable private construction and highlight forward-looking trends in Germany. The main focus is on promotion of energy-efficient construction and refurbishment and accessible and comfortable homes.

More details are available at: [www.kfw.de/award](http://www.kfw.de/award)

## »» The "Start-up champions" KfW Award

KfW Group has been recognising young companies from all over Germany since 1998 with the "Start-up champions" KfW Award (*GründerChampions*). Innovative business ideas are selected by a jury of experienced representatives from the worlds of politics and business, from the promotional institutions of the federal states and from chambers of industry and commerce. The businesses are assessed on their level of innovation, their creativity and their social responsibility. The jury also considers how environmentally friendly the business is and whether jobs and traineeships are created or maintained.

In presenting these awards, KfW aims to recognise the successful start-ups, and also draw more public attention to the idea of start-ups as a whole. After all, in a country as lacking in raw materials as Germany, innovative ideas are more important than ever.

More details are available at: [www.kfw.de/award](http://www.kfw.de/award)



>>> LittleSun GmbH

Berlin-based “Start-up champions” award recipient LittleSun GmbH received the special prize for the social background of its business idea in 2015. LittleSun is a global project founded in 2012 by artist Olafur Eliasson and engineer Frederik Ottesen. Their objective is to provide clean, affordable light to 1.1 billion people around the world who live without a constant electricity supply.

Sales of the company’s first product, the Little Sun solar-powered LED lamp, already number 350,000 around the world, half of them in regions without electricity. They are sold at low, locally affordable prices. LittleSun is developing long-term sales structures for ongoing support in regions without electricity. It is already active in more than ten African countries.

More details are available at: [www.kfw.de/award](http://www.kfw.de/award)



We promote Germany

We support internationalisation

We promote development

Other notes



Find out more:  
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(see page 4) and scan the page.

## »» Letter from the Executive Board

As a modern, professional and customer-oriented promotional bank, we play an important role for the environment, economy and society. We adhere to the principles of sustainability and subsidiarity. We take responsibility as a reliable partner – in Germany, in Europe and around the world.

# »» Dear readers,

Germany and Europe are facing major challenges in the form of world-wide growth slowdowns, geopolitical crises and influxes of refugees around the world, but also new, more ambitious climate protection targets. Financial institutions and promotional banks are also increasingly called upon to offer solutions.

These factors made 2015 an eventful but also very successful promotional year for KfW. KfW launched many new projects, enabling it to support development of innovation, growth and climate protection in Germany, Europe and around the world. It also made a key contribution to social cohesion in Germany by assisting the Federal Government, the federal states and municipalities to master their most difficult task in decades: accommodating and integrating thousands of people who have fled to Germany in the face of war and persecution. In so doing, KfW remains true to its commitment to responsible banking. KfW Group registered very strong demand for its financing products in finan-

cial year 2015. The volume of new promotional commitments rose by 7% to a total of EUR 79.3 billion (2014: EUR 74.1 billion).

Despite the ongoing low interest phase and challenging market conditions, **domestic promotional business** developed positively relative to the previous year, and in 2015 achieved a commitment volume of EUR 50.5 billion (2014: EUR 47.6 billion, +6.0%). This provided impetus for growth to the German economy. The increase can be attributed both to rising demand for financing from the commercial sector and strong demand for housing finance.



At EUR 27.9 billion, the volume of **international business**, represented by the business sector Export and project finance (KfW IPEX-Bank), the business area KfW Development Bank and the subsidiary DEG, was 9.7% higher than in the prior year (2014: EUR 25.5 billion). In particular, there was a high level of demand for financing from KfW IPEX-Bank. KfW Development Bank again recorded a large share of climate and environmental finance, above all in the financing of environmentally-friendly energy generation and supply.

KfW also reinforced its role as the world's leading financier in climate and environmental protection projects; the demand for **climate and environmental protection funding** rose by 11% year-on-year to EUR 29.5 billion (2014: EUR 26.6 billion). KfW remained one of the largest finance providers for Germany's energy transition in 2015.

### Refugee aid

KfW is supporting the German Federal Government, the federal states and municipalities in terms of refugee aid. The integration of international and domestic promotional activities is an important factor here. The special "refugee accommodation" facility launched in early September 2015 enabled KfW to very rapidly make an important contribution to helping German municipalities accommodate refugees. The programme volume was swiftly increased from EUR 300 million to EUR 1.0 billion due to consistently high demand, and was finally topped up to a total of EUR 1.5 billion on 20 January 2016. This amount, which was already fully allocated in January 2016, will provide accommodation for up to 150,000 people.

Never before in KfW's history has a financing offer taken effect as quickly as its "refugee accommodation" extraordinary promotion. No promotional programme has ever been so rapidly implemented and exhausted.



Dr Ulrich Schröder (Chief Executive Officer)

KfW aims to support the federal states and municipalities in creating affordable permanent housing in the next few years. In consultation with the Federal Government, KfW will channel up to EUR 2 billion through the promotional institutions of the federal states to create social housing.

In the international arena, KfW Development Bank is currently funding some 70 refugee projects in 20 countries with a total volume of EUR 1.4 billion. Overall, new commitments totalling around EUR 570 million are flowing to 38 projects in direct support of refugees and the partner country towns and villages taking them in.

The independent non-profit **KfW Stiftung** (foundation), to which KfW transferred its social and cultural commitment when it was set up in 2012, also provided support to refugees.

Under the patronage of Federal Minister for Economic Affairs and Energy Sigmar Gabriel and in collaboration with Social Impact gGmbH, KfW Stiftung launched a

stipend programme in August 2015. “Ankommer. Perspektive Deutschland” supports projects and initiatives that give refugees access to education, training and jobs, and thus also the chance of becoming productive members of German society and economy.

#### **Commitment to Europe**

KfW is well aware of its responsibility to support the European integration process, and is therefore participating in the European Commission's investment offensive, otherwise known as the Juncker Plan. For example, it signed a guarantee agreement with the European Investment Fund (EIF) in 2015 to finance start-ups and young enterprises under the European Fund for Strategic Investments (EFSI). This enables new loans totalling EUR 1.5 billion to be offered to young entrepreneurs, start-ups and innovative companies. Plans are underway to offer additional financing and cooperation involving the EFSI.

Within the framework of its capital-market based SME financing activities, KfW is also involved in the European securitisation market.

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2015 was a very successful promotional year. With its promotional products, KfW has been contributing significantly to modernisation and social cohesion in Germany.



Never before in KfW's history has a financing offer taken effect as quickly as its "refugee accommodation" extraordinary promotion. No promotional programme has ever been so rapidly implemented and exhausted.



Dr Ingrid Hengster

For the first time, KfW worked together with Cassa Depositi e Prestiti (CDP) and the EIF to provide financing for European SMEs by means of an Italian securitisation of lease receivables. This may well constitute a model for future closer cooperation between European promotional institutions, whose expansion has been another main focus of KfW's work during the past year.

#### Details on the business sectors' promotional results

The volume of new business in the **Mittelstandsbank** business sector last year amounted to EUR 20.4 billion (2014: EUR 19.9 billion). Demand for promotional loans on the part of companies proved to be far more robust overall than the year before.

With a promotional business volume of EUR 9.3 billion (2014: EUR 8.2 billion), the **environment** priority sector achieved strong growth in 2015. A EUR 3.8 billion volume of new business in the field of energy efficiency represents a very good result (2014: EUR 3.2 billion). A distinctly

positive market response to the substantially improved energy efficiency programme launched in July contributed significantly to this. At EUR 4.5 billion, the KfW Renewable Energies Programme exceeded the figure for the previous year (EUR 4.1 billion). In 2015, KfW thus again made an important contribution towards achieving national environmental and climate targets.

A very strong result (EUR 3.7 billion) was achieved for the priority sector of **start-ups** (2014: EUR 2.8 billion). For the first time, the volume of new business for the promotion of start-ups was well in excess of EUR 3 billion. This was driven in particular by two factors: the expansion of the product range implemented in late 2014 and the attractive interest conditions.

Commitments in the field of **innovation financing** came to EUR 0.8 billion (2014: EUR 1.4 billion). Innovation financing is significantly strengthened by the new strategic approach in equity finance.

In the years to come, KfW will be supplying up to EUR 400 million to German and European venture capital funds via the new ERP Venture Capital Funds Investments. In total, this new form of equity finance will enable KfW to leverage as much as EUR 2.5 billion in private capital for innovative start-ups over the next few years.

Commitments in the area of **general corporate financing** declined to EUR 6.6 billion (2014: EUR 7.6 billion). Decreased demand for the Entrepreneur Loan, which had proved extremely popular in 2014, was the decisive factor behind this.

New commitments in the **Kommunal- und Privatkundenbank/Kreditinstitute** business sector amounted to EUR 30.1 billion (2014: EUR 27.7 billion) – a record figure even on a long-term comparison.

At EUR 16.5 billion (2014: EUR 14.3 billion), the **housing** key priority sector recorded the strongest growth. The continued ro-

bustness of the construction sector, due to the shortage of housing in the urban agglomerations, was the reason for this.

With a commitment volume of EUR 5 billion (2014: EUR 4.0 billion), **infrastructure financing** also experienced strong growth. Alongside demand that was in any case good, the special “refugee accommodation” facility provided particular growth stimulus here.

The previous year’s level was maintained in the priority area of **education and social development**, with a commitment volume of EUR 2.6 billion (2014: EUR 2.6 billion). At EUR 4.7 billion, the contract volume in the **general funding** of promotional institutions of the federal states slightly exceeded that of the previous year (2014: EUR 4.6 billion). In **individual financing banks** a commitment volume of EUR 1.3 billion (2014: EUR 2.2 billion) was achieved with the funding of export loans and granting of global loans.

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In 2015 there was high demand for international financing. KfW launched more than 700 new projects worldwide – from eliminating causes of flight and mitigating misery in the refugee camps, through climate protection measures and the promotion of the private sector in developing and emerging market countries to the financing of German and European exports.

Dr Norbert Kloppenburg



**The Capital markets** business sector adopted new approaches to promotion in 2015. New commitments in connection with promotional activities on the capital market for SME and environment financing stood at EUR 1.1 billion. For 2016, KfW aims to make EUR 1 billion worth of investments in securitisation transactions and will continue to play an active role in the European securitisation market. With the green bond portfolio launched in 2015, we are adding a new capital market instrument to our financing for environmental and climate protection. At the end of 2015, the investments for this portfolio stood at EUR 281 million and it is planned to increase this to EUR 1 billion over the coming years.

In the **Export and project finance** business sector, for which **KfW IPEX-Bank** is responsible, new business commitments of EUR 20.2 billion were achieved (2014: EUR 16.6 billion). This was boosted in particular by the sector departments Maritime Industries (EUR 3.6 billion), Power, Renew-

ables and Water (EUR 3.2 billion) and Aviation and Rail (EUR 2.8 billion). A major portion of KfW IPEX-Bank's financing activities in Maritime Industries can be attributed to cruise ships, those in the Power, Renewables and Water sector department mainly to onshore and offshore wind farms and to a number of combined cycle power plants. The very good new business in the Aviation and Rail department is principally attributable to several larger financing deals for rail projects. This too underscores KfW IPEX-Bank's ambition to make a significant contribution to environmental and climate protection. The clear increase year-on-year is the result of an accumulation of extraordinary effects, including in particular high-volume individual transactions such as six cruise ships and bank refinancings in the maritime sector alone. Additionally, the development of the USD-EUR exchange rate overstated the commitment volume as compared to previous years by about EUR 1 billion.



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The earnings position developed far better than expected in the reporting year. The very good annual result is strengthening KfW's risk-bearing capacity and enables it to meet the rising capital requirements and to ensure its long-term promotional capacity.

Bernd Loewen





Dr Günther Bräunig



KfW is well aware of its responsibility to support the European integration process. With our contribution we are not only strengthening the economic development in Europe, but also here in Germany.



Alongside the increase in new business volume, collaboration in syndicates with partner banks continued to gain in importance.

**KfW Development Bank** is maintaining its new commitments at a high level. Last year, roughly EUR 6.7 billion was provided on behalf of the German Federal Government for development programmes throughout the world, the second-highest amount ever aside from the record year 2014 (EUR 7.4 billion). A considerable part of the new commitments (EUR 955 million) went to the crisis-ridden North Africa/ Middle East region. Moreover, almost 60% of new commitments were issued for projects and programmes in the field of climate and environmental protection.

KfW's subsidiary **DEG** committed about EUR 1.1 billion (2014: EUR 1.5 billion) for the financing of investments of private companies in developing and emerging countries in 2015. Given the politically and economically challenging trends in important target markets, DEG's new business in 2015 was focused on financings with a

good risk return profile and a high degree of relevance to development. The priority areas here were financings in Africa and other future markets as well as SMEs. EUR 632 million or 60% of new commitments were made to SMEs, while Africa and other future markets received commitments totalling EUR 566 million, equivalent to a 53% share.

To **fund** its promotional business, KfW in 2015 raised funds amounting to EUR 62.6 million on the international capital markets in a volatile market environment. It issued 175 bonds in 14 currencies, of which 82% was in the core currencies EUR and USD. This was the first time the USD accounted for the lion's share (45% or EUR 28 billion). KfW also issued five Green Bonds in EUR, USD, AUD, GBP and SEK, in total equivalent to EUR 3.7 billion. In 2016, KfW will be continuing its established issuing strategy; at EUR 70 billion to EUR 75 billion, funding needs will be higher than last year.



Dr Stefan Peiss

### The operating result in financial year 2015

The earnings position developed far better than expected in 2015, primarily due to the excellent valuation result. The valuation result benefited from various positive non-recurring effects, the magnitude of which cannot be expected again. This resulted in a consolidated profit of EUR 2.2 billion, exceeding once again the previous year's excellent profit of EUR 1.5 billion.

At EUR 2.1 billion (2014: EUR 2 billion), the Operating result before valuation (before promotional activity) was above both the prior-year figure and expectations. This was primarily the result of the positive development – despite the low interest environment – of Net interest income (before promotional activity), which benefited from the higher interest margins in Export and project finance and KfW's continued favourable funding opportunities.

This was due in part to only moderate net charges from risk provisions for lending business, and in part to the net gains from

hedge accounting and other financial instruments at fair value through profit or loss.

The promotional activity KfW performed in the Domestic promotional business at the expense of its own earnings decreased to EUR 345 million in 2015 (2014: EUR 364 million) due to the low interest environment.

Consolidated total assets rose by EUR 13.9 billion to EUR 503 billion in 2015. This was largely due to the development of the US dollar exchange rate, which was reflected in the higher liquidity held (+ EUR 7.9 billion) due to the increase of cash collateral received in the derivatives business as well as in the EUR 3.8 billion rise in Net loans and advances to EUR 369.2 billion. Unscheduled loan repayments increased again slightly year-on-year and amounted to EUR 18 billion.



The excellent risk provisioning result was once again a major contributor to KfW's annual profit in 2015. This is very gratifying given the persistent major challenges and increased volatility, particularly in developing and emerging market countries.

#### **Modernisation of KfW**

As a bank committed to responsibility, KfW is a value-oriented organisation. Its actions are based on the principles of sustainability in terms of content, and subsidiarity in terms of regulation. KfW's strength lies in providing long-term financing at attractive conditions, serving customers largely through financing partners – based on the established on-lending principle. KfW has launched a modernisation programme to ensure its long-term promotional activity.

The focus of the modernisation remained on three areas in 2015:

#### **Digitalisation of the promotional business**

Digitalisation of the promotional business is an important step in addressing changes in customers' banking business requirements and in ensuring the future viability of promotional lending as a model of success. KfW made significant progress in the digitalisation of its promotional business last year. Expansion of the promotional platform Bank On-lending Online 2.0 ("BDO 2.0") was one of the focal points.

Half of all loan approvals in the area of housing are now granted online, within a matter of seconds. KfW's digitalisation roadmap enables it to systematically pursue its aim of simplifying, standardising and automating the application and approval process. All of the bank's financing partners were connected or on the verge of being connected to KfW's promotional platform by the end of 2015. Relevant financial broker platforms and the promotional institutions of the federal states will be gradually connected. The cornerstone was also laid for processing commercial products on BDO 2.0 in 2015.

## Implementation of supervisory requirements

KfW has made considerable progress in implementing supervisory requirements resolved by the Federal Cabinet in 2013. The aim is to apply key banking supervision standards as set out by the German Banking Act (*Kreditwesengesetz*) and the European Capital Requirements Regulation (CRR) to KfW and to assign supervision of compliance therewith to the Federal Financial Supervisory Authority ("BaFin"). KfW welcomes this decision as a further step in professionalising the group, which recognises KfW's special role as a promotional institution.

KfW has already voluntarily applied important provisions and standards of the KWG, such as the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – "MaRisk"*) for quite some time. It has also complied with the German Solvency Regulation (*Solvabilitätsverordnung – "SolvV"*), which facilitated implementation of the new requirements. The KWG corporate governance requirements have applied to

KfW Group since 1 July 2014, setting out the necessary attributes for board members, such as the required professional qualifications and trustworthiness for the management board, and the expertise and trustworthiness for the supervisory board. The KfW Regulation entered into full force on 1 January 2016. Additional special banking supervisory requirements will be implemented in consultation with the banking supervisory authorities.

## IT modernisation

KfW continues to successfully modernise its IT system in order to remain prepared to meet the variety of promotional business requirements and regulations. The main objectives in rolling out the new SAP financial architecture were achieved in 2015. Implementation of the new IT strategy is already underway. It was presented to the Board of Supervisory Directors for the first time in 2015 as part of the extended KWG application. This means that KfW had already implemented the IT strategy regulatory requirements prior to entry into force of the KfW Regulation on 1 January 2016.

KfW continued to demonstrate in 2015 the important role it assumes for environmental protection, business and society as a modern, efficient and customer-oriented promotional bank. It has made sustainable promotion its guiding principle and helps to ensure that the challenges of our time can be mastered successfully, while strictly adhering to the subsidiarity principle. KfW takes responsibility as a reliable partner – in Germany, in Europe and around the world.

**Dr Ulrich Schröder**  
(Chief Executive Officer)

**Dr Günther Bräunig**

**Dr Ingrid Hengster**

**Dr Norbert Kloppenburg**

**Bernd Loewen**

**Dr Stefan Peiss**

## »» We promote Germany

We finance investments in the future by people in Germany; we finance start-ups and SMEs so that the German economy will remain strong, and we finance municipal and social infrastructures in order to advance structural change and the common good.

»» At a glance:

## Domestic promotion in 2015

KfW supported the domestic economy to the tune of EUR 50.5 billion in 2015, thereby exceeding the promotion provided to commercial, private and municipal customers in 2014 by almost 6%.

All domestic promotional areas contributed to this positive development: SMEs, start-ups, private home builders and refurbishers applied for loans more frequently, their willingness to invest considerably bolstered by the robust economy. KfW made a significant contribution to creating accommodation for refugees in municipalities with its special facility "refugee accommodation".



### Special facility “refugee accommodation”

The huge influx of people seeking refuge in Germany was one of the predominant issues of 2015 – for KfW as well. For many municipalities, it was one of the biggest challenges of recent years. KfW quickly developed a simple solution for the municipalities in this extraordinary situation by expanding the funding scope for creating refugee accommodation, thereby underscoring its own image as a bank committed to responsibility.

It created a special facility virtually overnight to fund municipal refugee accommodation at zero interest for the first ten years of the loan term. The initial EUR 300 million made available was fully

utilised within just days, requiring a top-up to EUR 500 million, followed by another to EUR 1 billion – all KfW’s own funds. This amount, too, was exhausted before the end of the year, with a final top-up of another EUR 500 million offered in January 2016. Overall in 2015, KfW funded accommodation for some 100,000 refugees through this special facility.

### Expanded promotion of SMEs and start-ups

As in recent years, promoting SMEs was once again a KfW focal area in 2015 in terms of promotional volume. At least 40% of domestic promotion in 2015 went to SMEs and start-ups. Total promotional business volume came in at EUR 20.9 billion, similar to the previous year’s figure. This

primarily reflected an increased investment propensity among businesses, buoyed by stable economic performance and generally favourable financing conditions.

Start-up funding in particular saw very positive year-on-year development, with a 35% increase to EUR 3.7 billion. A recent KfW study shows that potential start-up entrepreneurs in Germany most frequently perceive risk and financing as obstacles. Facilitating access to funding is thus one of the main approaches to promoting start-up activity. KfW again improved its offering to start-ups and young entrepreneurs by extending access to the “ERP Start-Up Loan – StartGeld”, as of 1 December 2015. Start-up and young companies can now benefit from the



At first glance, the modern home is nowhere to be seen – it’s ingeniously hidden inside an old barn. The clever combination of an old and a new building combines historical structures with innovative, energy-efficient and accessible living comfort ensured by geothermal heating and solar-powered water heating as well as separate entrances to every floor. The space between the old exterior walls and the new ones remains unheated in winter too, rendering it ideal extra thermal insulation. The young family was able to turn their unusual idea of modern living in a historical atmosphere into reality with KfW promotion through the “Energy-efficient Construction” programme.

product for up to five years after commencing their business activity rather than being restricted by the previous three-year limit.

This is made possible by a guarantee pledged by the EU's Competitiveness of Enterprises and Small and Medium-sized Enterprises ("COSME") programme and the European Fund for Strategic Investments ("EFSI").

### Supporting forward-looking innovations

Innovative companies often find funding as much of a challenge as start-ups do. SMEs with new ideas play a special role in the economy, as innovations are essential to long-term growth. Creating a good funding environment for innovators is therefore one of KfW's central tasks. In addition to offering its own products, KfW also frequently offers promotional products in cooperation with regional state banks (*Landesbanken*). For example, in September 2015, it concluded a global loan agreement based on KfW's "ERP Innovation Programme" in the amount of EUR 200 million, together with Baden-Württemberg's promotional bank L-Bank. The loan is aimed at promoting new ideas of small and medium-sized enterprises in Baden-Württemberg.

KfW promoted innovative projects with around EUR 0.8 billion overall in 2015. To further bolster young companies' innovation potential, the bank realigned equity finance that year. The "ERP Venture Capital Fund Investments" product has already been launched in collaboration with the Federal Ministry for Economic Affairs and Energy ("BMWi") to further improve funding for technology start-ups and young innovative companies in Germany, and most of all to close the gap in follow-on financing. KfW plans to invest a maximum of EUR 400 million in selected private venture capital funds over the next few years. The first four fund investments were made in 2015. The ERP Special Fund ("ERP-SV") and KfW also created a new venture capital fund at the end of 2015. This fund has been stocked with EUR 225 million and will invest – always in tandem with a private investor – under *pari passu* terms with

structures in line with the market suitable for venture capital in innovative start-ups and young tech companies. The new "copation" fund will be launched in spring 2016.

### Innovative solutions for greater energy efficiency

Development of innovative technical solutions in the energy-sector is also receiving a boost through funding of enterprises, municipalities and private customers for measures to save energy or utilise renewable energy sources. The following principle generally applies to promotional programmes: the higher the energy efficiency standard after the measure has been implemented, the higher KfW's financing.

Enterprises in particular invest specifically in energy-saving measures. KfW offers such companies special promotional products that meet several objectives. Demand for innovative technologies is on the rise in the energy sector; companies making such investments increase their competitiveness, and this ultimately supports the Federal Government in reaching its climate goals under the National Action Plan on Energy Efficiency ("NAPE").

A broader and enhanced promotional offering for companies wishing to invest in energy efficiency was launched on 1 July 2015. Considerable promotional improvements and expansion of the programme to companies of all sizes will realise additional potential, even in large companies.

As buildings consume almost 40% of all energy used in Germany, KfW has made improved energy standards for newly constructed and rehabilitated buildings one of its key promotional areas. Under the "KfW Energy Efficiency Programme – Energy-efficient Construction and Refurbishment", businesses now benefit from very low interest rates and repayment bonuses from the Federal Government's "CO<sub>2</sub> Building Rehabilitation Programme" funds for investment in energy-efficient construction and energy-efficient refurbishment of commercial non-residential buildings.





## Special design for innovative technology

Sometimes it's the small things that win people over. For example the concept behind Inkubus UG – building powerful PCs encased in unusually small chassis. The exclusive custom-made computers impress not only with their attractive design but also, in particular, their high quality. The computer casings consist of recycled wooden material or perspex. The energy consumption of such computers is already so low that it is currently half of the limit set by the 2016 Commission Regulation (EU) on energy consumption. KfW gave the young company a helping hand with a loan from the “ERP Start-Up Loan – StartGeld” programme.

Investment in energy-efficient production facilities and processes can be financed through the “KfW Energy Efficiency Programme – Production Facilities and Processes”. Interest rates are based on the principle: the greater the increase in efficiency, the more favourable the loan terms.

Demand for the new commercial programmes exceeded expectations and is proof of the high demand for funding. EUR 1.9 billion was committed for the two new parts of the programme alone; total commitment volume for commercial energy efficiency measures amounted to EUR 3.8 billion.

Particularly the programmes for energy-efficient rehabilitation of residential buildings, which were further improved

in 2015, were key contributors to CO<sub>2</sub> reduction. Raising lending ceilings as well as repayment bonuses and investment subsidies provides even greater incentives for investing in energy efficiency. A total of EUR 3.6 billion was disbursed for energy-efficient rehabilitation of almost 240,000 homes.

Moreover, a holistic approach can raise the efficiency potential of entire city districts. In the fourth quarter of 2015, significant improvements were also made to promotional terms in the “Energy-efficient Urban Rehabilitation – City District Energy Supply” and “Energy-efficient Urban Rehabilitation – Grants for Integrated District Concepts and Refurbishment Managers” programmes. Since the programme launch in 2011, over 800 city

districts receiving KfW support have made a large contribution to climate protection and the energy transition.

### Construction boom

Very exacting energy efficiency standards apply to the construction of new buildings, and KfW supports builders in implementing them. There was particularly high demand in 2015 for financing products in new housing construction – which received a major boost from the extremely low interest rate environment. Under the “Energy-efficient Construction” programme, promotional loans totalling almost EUR 7 billion were committed for over 140,000 homes, advancing not only housing construction itself but also climate and environmental protection in the housing sector.



## Energetic learning

This school releases energy – among its students as well as on the power grid. The entire school campus dating from the 1950s has been comprehensively expanded and intelligently rehabilitated. Since then the vocational college in Detmold has been an energy-plus school, which means that the building generates more renewable energy than it uses for heating. The comprehensive use of forward-looking construction materials has cut the heating requirement by 93%. What is more – integrated photovoltaic systems mounted on the roof generate extra energy that is fed into the grid. KfW funded this unusual project with a promotional loan from the “IKK Energy-efficient Urban Rehabilitation” product. Students and teachers alike now enjoy a welcoming and comfortable educational environment that facilitates modern learning, while the treasurer enjoys the reduced energy costs.



### High tech at sea

The energy transition has been a major driving force behind the development of new technologies. Demand for creative ideas paired with technology know-how is particularly high in commercial production of renewable energy. KfW promotes the expansion and utilisation of renewable energy via numerous programmes. A particular highlight in 2015 was the conclusion of project financing for the “Veja Mate” wind farm off the German North Sea coast. KfW has already funded three wind farms via its “Offshore Wind Energy” programme launched in 2011. After the programme’s terms were adapted to current market conditions in March 2015, KfW invested around EUR 430 million, its largest fund-

ing share to date, in a fourth offshore wind project. “Veja Mate” will be one of the world’s largest offshore wind farms and is considered an important step in the expansion of renewable energy.

### Almost full market penetration for BDO

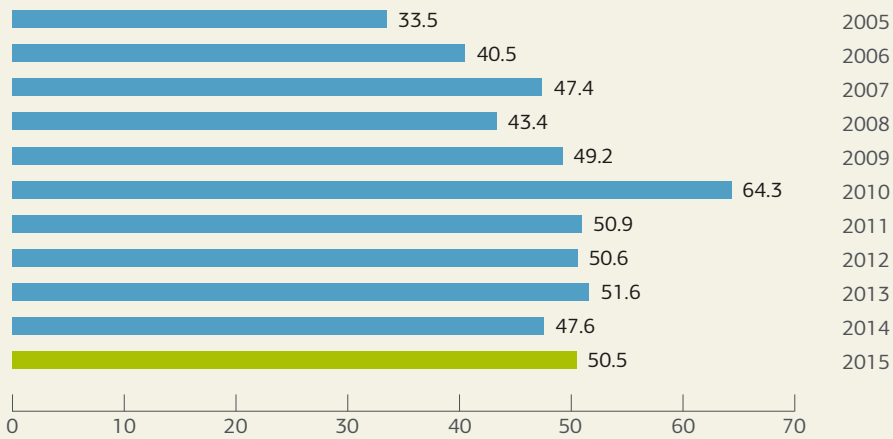
The way to obtaining a housing-related promotional loan became even easier for an increasing number of private customers in 2015. After an almost seamless online application process was implemented with a number of pilot partners last year, many other financing partners have since also been connected to the On-lending Online 2.0 platform (“BDO 2.0”). Now almost all housing-related promotional loan

applications can be made fully electronically, which is much more convenient and efficient and saves considerable time.

KfW plans to expand this innovative application process to commercial products as well in 2016.



**Volume of domestic promotional loans**  
(EUR in billions)<sup>1)</sup>



<sup>1)</sup> Without securitisation

# What we offer start-ups and businesses

**As a partner to the SME sector, KfW supports start-up entrepreneurs, the self-employed and SMEs with a broad spectrum of financing and advisory services. In addition to start-ups and general corporate financing, it places particular emphasis on financing investments in climate and environmental protection and on promoting innovation.**

## Promotional business overview

The commitment volume in the business sector Mittelstandsbank (SME Bank) reached a pleasingly high level of EUR 20.4 billion again in 2015, following EUR 19.9 billion in the previous year. This reflected, among other things, an increased investment propensity among businesses, buoyed by stable economic performance and sustained favourable financing conditions.

In the key promotional areas of start-ups and general corporate financing, total commitment volume stood at a level similar to that reached in 2014, at EUR 10.3 billion. In the promotional area of environmental protection, total commitments were up considerably year-on-year to EUR 9.3 billion (2014: EUR 8.2 billion). This positive development was buoyed by the economic upswing, the low interest environment and the revival of demand for loans.

Commitments of EUR 0.8 billion to the innovation financing promotional area in 2015, which was a decrease from the previous year, against the general trend, meaning in particular that 2014's extraordinarily high commitment volume of EUR 1.4 billion in the "ERP Innovation Programme" was not repeated in 2015.

## Commercial climate and environmental protection

Supporting investment in climate and environmental protection is a particular focal point of SME promotion. Commitments of EUR 9.3 billion were made in this area in 2015, which corresponds to 46%

of KfW Mittelstandsbank's total volume. As well as general environmental protection, core elements include financing energy efficiency measures and supporting the Federal Government's expansion plans in the field of renewable energy.

## Leveraging energy efficiency potential in the corporate sector

KfW has very successfully offered SMEs favourable financing for energy efficiency measures for many years now through the "KfW Energy Efficiency Programme".

As businesses' energy saving potential is still far from exhausted, KfW made another substantial improvement to its promotional offering for operational energy-efficiency measures in July 2015.

As one of the largest finance providers for the energy transition, KfW's restructuring of the "KfW Energy Efficiency Programme" supports the Federal Government in reaching its climate goals under the NAPE.

In the "Production Facilities and Processes" programme component, investments in facilities aiming at particularly high energy savings are promoted through low-interest loans. This follows the principle of "the higher the energy savings, the higher the funding".

Uniform standards have now also been implemented for promotion of buildings on behalf of the Federal Government. Under the "Energy-efficient Construction and Refurbishment" component, investments in new construction or rehabilitation of energy-efficient commercial buildings can be funded at very favourable interest rates provided by the Federal Government from its "CO<sub>2</sub> Building Rehabilitation Programme" funds. Repayment bonuses make promotion even more attractive. The amount of promotion is determined by the "Efficiency House" standard achieved.

KfW committed a promotional volume to start-ups and general corporate financing similar to that of the previous year, and significantly more to environmental protection funding.

The programme has also been extended to large companies, enabling significant energy-saving potential to be further leveraged.

The expanded and improved promotional offering was in great demand from the outset, and actually exceeded the high expectations. The high demand in ambitious promotion standards (premium standard at 30% energy savings and newly built KfW Efficiency House 55) shows that the promotional incentives were appropriately set.

Overall, commitment volume was further expanded in 2015 from the previous year to EUR 3.8 billion; half of this volume was invested in the two new programme components successfully launched on 1 July 2015.

KfW funds larger corporate projects in energy, climate and environmental protection under the “KfW Syndicated Loan – Energy and Environment”. Financing is granted as a direct loan at market terms via banking syndicates. Projects in climate, environmental and resource protection have also been accepted for financing since mid-November. The programme was further improved by opening it up to foreign projects of German companies and their subsidiaries located abroad. Loans totaling EUR 84 million (including the precursor programme Energy Transition Financing Initiative) were committed in 2015.

### Help along the renewable energy expansion corridors

KfW’s second major promotional area in climate and environmental protection financing is its support of the Federal Government in expanding renewable energy. EUR 4.5 billion of support was provided in 2015 (2014: EUR 4.1 billion) for systems to generate energy using renewable energy sources under the KfW programmes “Renewable Energy – Standard” for the electricity market, “Renewable Energy –

Premium” for the heating market and “Renewable Energy – Storage”. This is how KfW, as the most important finance provider on the German market, supports the Federal Government in achieving its climate and expansion targets in renewable energy.

KfW’s “Renewable Energy – Standard” programme offers low-interest and long-term financing for the generation of electricity from regenerative energy sources. The most frequently financed technologies are onshore wind farms and photovoltaic power facilities. The commitment volume for onshore wind power installations stood at EUR 3.8 billion in 2015, exceeding the prior-year figure by EUR 600 million. In addition to numerous new wind farms in Germany and abroad, KfW also finances repowering measures, in which older systems are replaced by new, more powerful ones. The commitment volume for photovoltaic systems at around EUR 478 million was down again year-on-year (2014: EUR 535 million). This trend reflects the decline in expansion of photovoltaic systems in Germany.

Larger facilities enabling the use of renewable energy on the heating market are supported by KfW’s “Renewable Energy – Premium” programme in the form of low-interest loans and reduced repayment amounts subsidised by the BMWi.

The lion’s share of promotional funds went to small companies in 2015, with the total commitment volume coming in at EUR 137 million, compared to EUR 234 million in 2014. As in the preceding years, promotional activity focused on heating networks and biomass plants.

Small photovoltaic battery storage systems have been promoted under the KfW “Renewable Energy – Storage” programme since 2013. The first phase of the programme was successfully concluded in 2015. The programme objectives – integration of photovoltaic systems into the

Energy generation from regenerative sources focussed on onshore wind farms and photovoltaic systems.

Highest standards for operation and safety of battery storage systems in Germany – thanks also to the KfW storage programme.

power grid, market and technology development of stationary battery storage facilities and reduction in system costs – were largely achieved. Each promotional euro leads to investment of seven euros. Since the programme was launched in May 2013, KfW has committed a lending volume of EUR 266 million, with support being provided for around 17,100 storage facilities, almost 8,800 of which in 2015. Germany has the highest standards in operating and safety of network storage thanks to the KfW storage programme.

KfW has been financing offshore wind energy projects in the German North and Baltic Sea coasts structured as project funding with its “Offshore Wind Energy” programme since 2011. After successfully adapting the programme to current market conditions, KfW participated in funding the “Veja Mate” offshore wind farm to the tune of EUR 430 million in 2015. This project with a total investment volume of around EUR 1.9 billion is the most sizable funding since the programme’s launch. This wind farm is the fourth thus far to receive KfW promotion under this programme and will be one of the world’s largest – yet another significant contribution by KfW to implementing the energy transition.

#### **General environmental funding contributes to climate and environmental protection**

The third component of KfW’s activities in the field of climate and environmental protection is general environmental funding. The “KfW Environmental Protection Programme” provides low-interest, medium to long-term financing for environmental protection and investment measures that stop environmental burdens from materialising. The focus in 2015 was on projects aimed at improving resource efficiency as well as waste avoidance and recycling. At around EUR 406 million, the commitment volume was down on the previous year (2014: EUR 579 million). In addition, KfW offers the “BMUB Environmental Innovation Programme”, financed by the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (“BMUB”), for particularly worthwhile large-

scale pilot projects aimed at reducing stress on the environment. Investment subsidies totalling EUR 36 million were committed in 2015 (2014: EUR 33 million).

#### **Significant expansion of start-up and innovation financing**

KfW realigned its equity finance offering in 2015. It is improving funding for technology start-ups and young innovative companies in Germany in collaboration with the BMWi via two new promotional instruments, thereby helping to resolve the shortage in supply of venture capital (“VC”) through follow-on financing and bolstering Germany’s VC market.

Under the “ERP Venture Capital Fund Investments” programme, KfW will invest up to EUR 400 million over the next few years in selected private venture capital funds with an investment focus on start-up and early-growth phases.

The programme was very well received by market players; KfW invested a total of EUR 55 million in four investment funds in 2015.

Moreover, KfW and the ERP-SV launched a new public fund at the end of the year with market-oriented structures suitable for venture capital, called “coparion”. The new fund has been stocked with EUR 225 million, making it a major German VC investor. The new “coparion” fund will be launched sometime in spring 2016 and replace the “ERP Start Fund” in making investments in start-up companies.

“coparion” will invest directly in innovative start-ups and young technology companies on a pari passu basis of equal financial terms together with lead private investors.

KfW and ERP-SV will use two new instruments to leverage private capital of some EUR 2.5 billion for the German VC market in the next few years.

Concluding two new guarantee agreements with the European Investment Fund (“EIF”) also significantly boosted loan financing of innovations and start-ups. The two guarantees enable KfW to assume 50% to

General environmental financing focussed on resource efficiency improvement, waste avoidance and recycling.

80% of the credit risks in the “KfW EntrepreneUR Loan Plus” and “ERP Start-Up Loan – StartGeld” programmes. This makes it easier for the on-lending financing partners to grant loans to innovative companies and start-ups.

The two guarantee agreements are backed firstly by the InnovFin SME Guarantee Facility of the “Horizon 2020” programme or the Competitiveness of Enterprises and Small and Medium-sized Enterprises (“COSME”) programme, and secondly, by the European Fund for Strategic Investments (“EFSI”) set up under Europe’s investment offensive. Commitments totalling EUR 1.5 billion can be secured until the end of 2017. This is an important contribution by KfW to implementing the EFSI – better known as the “Juncker Plan” – in Germany.

Overall, the promotional volume for innovations and start-ups was, at EUR 4.5 billion, a further increase over the previous year (EUR 4.1 billion).

### **General corporate financing remains the anchor of SME promotion**

The most popular promotional product in 2015 was once again the “KfW EntrepreneUR Loan”. At around EUR 6 billion, commitments under this programme were down on the previous year (2014: around EUR 7 billion), reflecting, among other things, the trend towards high-quality investments – particularly in energy efficiency – which is accompanied by a shift in demand towards KfW’s more inexpensive special products. At EUR 378 million in 2015, the commitment volume in the “ERP Regional Promotion Programme”, which KfW has been using for many years to promote investments in structurally weak regions at particularly attractive conditions, remained around the prior-year level (2014: EUR 392 million).

KfW also provided grants for provision of advice to start-ups and SMEs in financial difficulties via its “Start-up coaching in Germany”, “Round Table” and “Turnaround Consulting” promotional programmes in 2015. It supported a total of 9,300 consultations with a total of EUR 25 million in 2015.

Under the new guidelines on the Federal Government’s commercial advisory services, the different programmes KfW currently offers and those offered by the Federal Office of Economics and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle* – “BAFA”) will be bundled into a standardised offering. Applications will then be directed to BAFA.

Demand for low-cost special products of the energy sector is particularly high.

# The promotional offering for private customers

**In terms of their numbers, private investors constitute the largest domestic promotion customer group by far. KfW's work has a very broad impact on the housing and education sectors through this group. Its promotional products serve to raise the awareness of many people about environmentally and socially relevant issues such as climate and environmental protection, demographic change and lifelong learning, while simultaneously supporting their investment in their own future.**

## Promotional volume overview

KfW provided a total of more than EUR 19.1 billion of support to private customers in 2015, thereby exceeding the high 2014 commitment volume by 13%. Promotional housing programmes made a key contribution of EUR 16.5 billion to the result. Large sections of the population were also supported in education financing, with a volume of EUR 2.6 billion.

The commitment volume in housing was almost 15% higher than in the previous year. Commitment figures rose in particular for energy-efficient new construction projects. The construction sector was driven not least by the low interest rate environment in 2015, which also raised the promotional volume. EUR 7 billion was committed for the construction of 141,500 new energy-efficient homes under the "Energy-efficient Construction" programme. Positive development was also seen in the commitments for energy-efficient refurbishment of residential buildings. Loans and grants totalling EUR 3.6 billion were committed to make sustainable improvements to energy efficiency in more than 239,000 homes in 2015. There was also great demand for the KfW Home Ownership Programme, under which KfW committed EUR 5.4 billion in funds, continuing the very high level of recent years.

## Improved promotional incentives for energy-efficient housing

Promoting housing-related investments is aimed not only at creating housing but also at advancing climate and environmental protection and supporting the Federal Government in implementing the energy transition at the same time. Around 40% of energy in Germany is consumed in buildings. There is great potential in this area for improving energy efficiency and conserving resources.

The KfW Efficiency House system, which is used in KfW's promotional approach and has now become a uniform national standard, provides a strong incentive to continuously raise standards and consequently also advance technological progress in the area of energy-efficient refurbishment and construction. The principle is simple: the more ambitious the project, the more support is provided. KfW uses federal budget funds to support investors with the refurbishment or construction of homes for own use or rent who exceed the statutory minimum standards set out in Germany's Energy Conservation Ordinance (*Energieeinsparverordnung – "EnEV"*).

Promotional incentives were further increased in 2015 and promotional terms in the "Energy-efficient Refurbishment" programme improved by raising the limits on promotional loans and those on repayment bonuses.

The energy-efficient construction projects and rehabilitation measures initiated through KfW promotion in 2015 alone contribute to a year-on-year decrease in annual carbon emissions by around 675,300 million tonnes – a considerable contribution to the Federal Government's CO<sub>2</sub> reduction and energy efficiency targets.

Almost 15% more funds were committed for housing than in 2014.



### **KfW Award**

Impetus for intelligent efficiency solutions often comes from model projects – rehabilitation measures that stand out because of their blend of particular creativity and high-quality technology. The 13th “Construction and housing” KfW Award also sought such extraordinary projects in 2015. KfW recognised projects with particularly smart and innovative solutions under this year’s motto “Intelligent building: modern, efficient, cosy.” A jury comprising renowned experts selected ten prize-winners from more than 170 applicants, with prize money totalling EUR 30,000.

### **Fewer barriers for residents and more for intruders**

KfW also focuses on demographic change in its housing-related support. For six years now, KfW has promoted age-appropriate conversion of homes. Loans and grants are given to support conversion measures that meet high standards to improve accessibility, in order to create adequate and forward-looking housing for any stage of life. KfW committed EUR 374 million in loans of this type in 2015. This was supplemented by grants from federal funds of EUR 32.7 million. Overall, this improved accessibility in over 43,900 homes.

By the same token it sometimes makes sense to create barriers in homes – especially when it comes to keeping intruders at bay. KfW expanded its promotional offering in November 2015 to include subsidies for crime prevention measures, such as the installation of burglar-proof front doors, bars and shutters and retrofitting of windows. The Federal Government has earmarked an annual EUR 10 million for 2015 to 2017 to fund burglary protection. This enables renters and home owners to increase their investment in the security of their apartments and houses as well. The new promotional option has already protected some 4,150 homes through investments in home security.

### **Investment in education still ranks high**

KfW has been helping private individuals to invest in their own education for some years now. It is a strong and reliable partner to borrowers and the Federal Government on the promotional landscape for educational loans. Education is a key factor in safeguarding Germany’s position as a centre for technology and science – especially with a view to demographic change. KfW supports students in higher education and promotes career advancement opportunities with its broad offering, which also advances scientific and technical progress.

The KfW Student Loan offers students very flexible financing opportunities regardless of their parents’ income. The offering is complemented by federal programmes to finance degrees, such as the “Education Loan” and the “BAföG Bank Loan”, which is downstream of the governmental BAföG loan. The federal “AFBG – Master BAföG” programme supports further professional development.

Demand has remained high for a number of years. KfW granted loans totalling EUR 2.6 billion to 110,000 students in 2015, with the promotional area maintaining the very high level seen in the previous year. At EUR 1.2 billion, the “KfW Student Loan” has the highest commitment volume among the education programmes. The federal programmes for students increased in 2015 to a total promotional business volume of EUR 1.4 billion from EUR 1.2 billion the previous year.

The “KfW Student Loan” offers students flexible financing.

# The promotional offering for municipalities

**Municipalities' many varied duties include ensuring a high quality of life and a healthy conditions for local business and work. In 2015, municipalities and local authorities also faced the challenge of accommodating the large influx of refugees. KfW provided these institutions with a special facility to help them cover the additional investment in accommodation. It also offered municipalities and local authorities, as well as social and municipal enterprises, a broad promotional range for their regular investments, particularly in climate and environmental protection.**

## Promotional volume overview

Overall, KfW provided support of EUR 5 billion to municipalities as well as municipal and social enterprises in 2015. The promotional volume thus increased considerably over that of the previous year. For one thing, demand rose for programmes already established for some time. For another, KfW launched the special "Refugee accommodation" facility for investments in new buildings, conversions and rehabilitation as well as the purchase of refugee accommodation.

## Swift aid for refugees

Handling the tide of refugees has been no easy job for municipalities. The main priority was to rapidly create accommodation for so many people without a lot of red tape. KfW reacted quickly with a special loan offering under "IKK – Investment Loans for Municipalities", which allowed municipalities to finance their local refugee accommodation free of interest for the first ten years thanks to the special facility stocked with KfW's own funds.

A large part of the originally planned budget of an initial EUR 300 million and a further EUR 500 million was used up within just days, requiring the facility to be later increased to EUR 1 billion.

This amount, too, was fully committed by year-end. Overall in issuing some 550 loans, KfW supported around 400 municipalities in providing accommodation for around 100,000 refugees.

Thanks to the special facility, the commitment volume under the basic programme for investment in municipal infrastructure, the "IKK – Investment Loans for Municipalities", reached the extraordinarily high amount of EUR 3.0 billion, EUR 1 billion more than in the previous year. However, 2015 saw very high demand also for the second basic programme "IKU – Investment Loans for Municipal Companies and Social Organisations". The commitment volume was slightly above the prior-year level and amounted to EUR 1.5 billion. The low interest rate environment was likely to have been a key factor for many applicants in making investment and funding decisions for modernisation of schools and kindergartens, expansion of local public transport systems or energy-efficient utilities.

## Improvements in energy-efficient urban rehabilitation

A key area in KfW's funding of municipal infrastructure has for some time been the support provided to investments in municipal climate and environmental protection projects. The loans serve for energy-efficient rehabilitation of municipal buildings and energy-efficient supply of utilities to entire urban districts. KfW committed loans totalling EUR 368 million to this

end, plus a total of 153 grants of EUR 9.9 million for integrated district concepts and refurbishment managers. This enabled promotion of comprehensive solutions for energy-efficient urban districts. Stimulus was also provided to municipalities and their utilities providers, as well as to housing companies and private owners for further investments in energy efficiency.

The "Energy-efficient Urban Rehabilitation" programme, supported with funds of EUR 50 million from the Energy and Climate Fund, received an additional boost in the fourth quarter of 2015 from some considerable improvements in promotional terms. The product can now be used for additional promotional targets. An option was introduced to extend rehabilitation management loans for up to five years, and repayment bonuses rendered it even more attractive.

# Special financing for financing partners and special tasks

**In addition to the traditional programme loans, KfW also offers its financing partners global loans to support their promotional activities, via on-lending banks. The offers are aimed at partners that focus their activities on select common target groups and key promotional areas.**

## **Global loans to the promotional institutions of the federal states**

KfW has very successfully cooperated with the promotional institutions of the federal states (*Landesförderinstitute – “LFIs”*) for years. Cooperation with the LFIs focuses firstly on granting programme-related global loans and secondly on general funding.

The programme-related global loans serve to fund the LFIs' promotional loans in the SME, housing and infrastructure segments based on the relevant KfW offers. This results in particularly favourable financing terms for borrowers, as financial support from KfW and the Federal Government is bundled with that of the LFIs and federal states. Moreover, the cooperation helps create a more transparent promotional landscape. Business with the LFIs via programme-based global loans was also continued at a high level in 2015. The total disbursement volume amounted to EUR 6.6 billion.

KfW offers LFIs general funding as an additional cooperation instrument. This product enables the LFIs to fund state-specific promotional activities and initiatives that fall under KfW's promotional mandate. The business volume amounted to just under EUR 4.7 billion in 2015, similar to the previous year.

## **Individual financing banks**

KfW also maintains close cooperation with European promotional banks, concluding global loan agreements with them in order to strengthen business, environmental protection and infrastructure across Europe. Particular focal points of this cooperation are promotion of SMEs as well as climate and environmental protection. The cooperation also enables promotional institutions in other European countries to benefit from KfW's good access to the market. An example of this in 2015 was a global loan of EUR 100 million to Polish promotional bank Gospodarstwa Krajowego (“BGK”). The funds serve to finance long-term investment loans to Polish SMEs. The German economy also benefits indirectly from an improved investment climate in Poland.

In support of SMEs in Germany, KfW also offers global loans for leasing finance. Individual financing agreements totalling EUR 500 million were concluded via global loans (Europe and leasing).

KfW supports German enterprises in global competition with another promotional product. On behalf of the BMWi, it refinances export loans covered by federal guarantees, thereby making an important contribution to strengthening the international competitiveness of German exporters. The BMWi recently extended this product for a further five years. In export financing, the commitment volume amounted to EUR 800 million in 2015.

## **Compensatory Fund for Securities Trading Companies**

KfW administers the Compensatory Fund for Securities Trading Companies (“EdW”) under a mandate from the German Federal Government. The EdW is a Federal Government special fund without legal capacity that protects small-scale investors against potential loss in securities trading. To date, it has processed around 34,100 notices of loss under 21 compensation claims and disbursed around EUR 282 million in investor compensation.

## **Humanitarian Aid Foundation**

KfW has been conducting the business of the Humanitarian Aid Foundation for Persons Infected with HIV through Blood Products on the basis of an agency agreement since 1995. For humanitarian and social reasons, the foundation pays a monthly pension to individuals who have been directly or indirectly infected with HIV (human immunodeficiency virus) or who have contracted AIDS through blood products. In certain circumstances, the affected person's dependants may also receive aid. The foundation is funded by the Federal Government, the federal states, pharmaceutical companies and the German Red Cross.

KfW supported around 560 affected individuals from foundation funds in 2015 with monthly pension payments totalling around EUR 8.7 million.

Domestic promotion has been presented via the two business areas Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) since April 2013. The promotional areas housing investment, education and social development, infrastructure, general funding of the promotional institutions of the federal states/global loans and individual financing banks are accordingly reported together.

## Volume of promotional financing of business sector Mittelstandsbank as of 31 December 2015

Programme	Promotional business volume		Purpose
	2015 EUR in millions	2014 EUR in millions	
<b>Total Mittelstandsbank</b>	<b>20,431</b>	<b>19,924</b>	
<b>Start-ups and general corporate financing</b>	<b>10,324</b>	<b>10,334</b>	
KfW EntreprenEUR Loan	5,995	6,870	Investments of SMEs
ERP Capital for Start-Ups	133	127	Start-ups and young companies, company succession through subordinate loans
ERP Start-Up Loan	3,577	2,631	Start-ups and young companies, company succession
ERP Regional Promotion Programme	378	392	Investments to improve regional economic structure
ERP Participation Programme	43	59	Private equity for small and medium-sized enterprises
Other promotional programmes	174	186	
Consultancy grants	25	70	
<b>Innovation</b>	<b>806</b>	<b>1,371</b>	
ERP Innovation Programme	620	1,329	Research and development measures, market launches with debt and subordinated capital
ERP Start Fund	33	42	Young innovative technology companies through private equity
Special financing R&D	6	-	Development costs in aviation
KfW EntreprenEUR Loan Plus	48	-	SMEs with innovative projects
KfW EntreprenEUR Loan Plus	55	-	Start-ups and innovative companies in the early growth phase via participation in private venture capital funds
"coparion" co-investment fund	45	-	Innovative start-ups and young technology companies through private equity
<b>Environment</b>	<b>9,301</b>	<b>8,219</b>	
KfW Environmental Protection Programme	406	579	Environmental protection measures
KfW Energy Efficiency Programme	3,801	3,171	Energy efficiency measures
<i>KfW Energy Efficiency Programme (old)</i>	1,887	3,171	
<i>KfW Energy Efficiency Programme – Energy-efficient Construction and Refurbishment</i>	945	-	
<i>KfW Energy Efficiency Programme – Production</i>	968	-	
KfW Renewable Energy Programme	4,546	4,113	Investment in renewable energy
KfW Offshore Wind Energy Programme	428	-	Offshore wind farms
KfW Syndicated Loan – Energy and Environment	84	140	High-volume investments in renewable energy sources and energy efficiency measures
BMUB Environmental Innovation Programme	36	33	Projects with demonstrative character in the area of environmental protection
EU NER 300 funding programme	-	183	Demonstration projects in the area of renewable energy sources and the capture and storage of CO <sub>2</sub>

Differences in the totals are due to rounding.

**Volume of promotional financing of business sector Kommunal- und Privatkundenbank/Kreditinstitute  
as of 31 December 2015**

Programme	Promotional business volume		Purpose
	2015 EUR in millions	2014 EUR in millions	
<b>Total Kommunal- und Privatkundenbank/ Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)</b>	<b>30,054</b>	<b>27,699</b>	
<b>Housing investment</b>	<b>16,468</b>	<b>14,338</b>	
Energy-efficient Construction and Refurbishment	10,554	9,320	Energy-efficient modernisation and construction of residential buildings
<i>Energy-efficient Refurbishment</i>	3,557	3,697	
<i>Energy-efficient Construction</i>	6,996	5,623	
Age-appropriate Conversion – Loans	374	331	Conversion of residential accommodation to improve accessibility
Age-appropriate Conversion – Grants	33	3	
KfW Home Ownership Programme	5,437	4,684	Acquisition and construction of owner-occupied housing
Promotional Funding of LFIs	70	–	
<b>Education and Social Development</b>	<b>2,643</b>	<b>2,591</b>	
AFBG (Master BAföG)	262	291	Continuing professional development
BAföG government loans	1,065	773	Academic study
Education Loan	89	90	
BAföG bank loans	27	29	
KfW Student Loan	1,198	1,407	
Tuition fee loans	2	2	
<b>Infrastructure</b>	<b>4,954</b>	<b>3,983</b>	
Investment Loans for Municipalities	3,232	2,296	Investment in the municipal and social infrastructure (including refugee aid), special promotional programmes for municipal energy supply and urban energy-efficient rehabilitation, with promotional targets that meet the challenges of demographic change
<i>IKK – Investment Loans for Municipalities</i>	3,004	2,047	
<i>IKK – Energy-efficient Urban Rehabilitation</i>	71	96	
<i>IKK – Municipal Energy Supply</i>	0,5	0	
<i>IKK – Accessible City</i>	21	22	
<i>IKK – Energy-efficient Construction</i>	136	132	
Investment Loans for Municipal and Social Enterprises	1,723	1,686	
<i>IKU – Investment Loans for Municipal and Social Enterprises</i>	1,547	1,486	
<i>IKU – Municipal Energy Supply</i>	55	64	
<i>IKU – Accessible City</i>	5	5	
<i>IKU – Energy-efficient Construction</i>	68	45	
<i>IKU – Energy-efficient Urban Rehabilitation</i>	48	88	
<b>General Funding of LFIs</b>	<b>4,691</b>	<b>4,626</b>	Global loans to fund the promotional institutions of the federal states
General funding of the promotional institutions of the federal states	4,691	4,626	
<b>Individual financing banks</b>	<b>1,297</b>	<b>2,161</b>	
Olymp Refinancing of Export Loans	797	673	Refinancing of export loans covered by federal guarantees
Structured products	–	100	Structured products and global loans to promote SMEs and environmental protection
Global loans – leasing	400	550	
Global loans Europe (EU mandate)	–	88	
Global loans Europe (other)	100	750	

Differences in the totals are due to rounding.

# KfW funding – simple, digital and everywhere

**KfW's promotional products help private individuals, businesses, municipalities and municipal institutions to invest in the future. KfW aims to make it as easy as possible for its customers and financing partners to get to know and understand KfW's products, which are to be readily accessible and available everywhere. In other words, KfW aims for promotion that reaches people. To this end, traditional sales channels are increasingly becoming digitally enhanced, enabling customers to include KfW promotional offerings in their information and decision-making process anywhere and at any time.**

The banking environment has changed in recent years. The low interest-rate environment, more stringent regulation, new competitors and, not least, changes in the way bank customers deal with information, make decisions and conduct transactions require new sales channels for promotional products. In addition to the resulting efficiency and cost pressure on banks and savings banks, the increasing digitalisation also affects communication with customers. KfW is tackling this challenge and intends to reduce the burden on its financing partners as much as possible and support them in offering and on-lending KfW products. In this manner, KfW is also addressing the growing importance of digital brokers and is expanding its cooperation with this type of provider increasingly demanded by customers.

## **Full market penetration for BDO**

Two years ago, KfW launched a pilot project with an initial group of bank partners to replace the traditional submission methods with a digital application and approval process, Bank On-lending Online ("BDO 2.0"). The aim is to make the promotional business quicker and more efficient for both customers and financing partners, to maintain its attractiveness in the digital

age. Additional high-volume financing partners were connected to BDO 2.0 core functionalities in the housing-related area over the course of 2015, including Deutsche Bank AG, ING-DiBa and top institutions in the savings bank sector. Opening up the KfW promotional portal as of 1 October 2015 to those who do not wish to set up their own BDO solution, but prefer instead to access KfW's user-friendly online interface was an important milestone. Since then, 83 financing partners have opted for this new application process, enabling almost full market penetration.

In addition, Interhyp AG was the first financial broker platform to be connected to BDO, in autumn 2015. Moreover, a pilot partnership was launched to connect the promotional institutions of the federal states with Landeskreditbank Baden-Württemberg (L-Bank).

Automation and digitalisation of the application and approval processes enable connected institutions to give their customers a binding response from KfW on the promotional capacity or funding of their project within a matter of seconds. The processes are fully electronic and consequently more convenient and efficient and save considerable time for customers and bank advisors alike.

## **Key account management supports financing partners**

The financing partners' different business and service models address individual needs and requirements. Key account management acts as a direct link to the main financing partners. In addition to banks, savings banks, insurance companies, promotional institutions of the federal states and associations of banks, these partners now include financial brokers, whose role is becoming increasingly important, especially in financing housing construction.

BDO 2.0 makes promotional business quicker and more efficient.

KfW receives valuable market feedback from regular exchanges with its partners. This format was further developed in 2015, yielding a number of different constructive ideas. A lot of our partners' momentum has already been harnessed, while that of others is being assessed.

### Positive collaboration with multipliers

In addition to financing partners, multipliers such as associations, chambers and advisors are important contacts for KfW. Joint activities were expanded and new collaboration agreements concluded in 2015. These featured events and training sessions on energy-efficient residential and commercial construction and refurbishment. In particular, the KfW Online Academy was expanded and also opened up to financing partners.

The joint initiative of recent years "Better with Architects – Energy-efficient Buildings" was continued with the Federal Chamber of German Architects. Similar event series were extended to other associations.

More than a thousand individual multipliers were reached via publications, events and regional conferences in collaboration with a number of associations and chambers. Many consultants received information material targeted to their needs as part of dialogue marketing, took part in face-to-face or online training seminars and were invited to discussions about KfW promotional programmes.

### New KfW Partner Portal

Financing partners and multipliers alike can find direct access to information on KfW promotional opportunities online. The new "KfW Partner Portal" was set up in mid-2015 to replace the previous offering divided into "KfW Advisors' Forum" and "KfW Partners". This is a user-friendly central contact point specifically designed for target groups to obtain information.

This new partner portal gives financing partners, multipliers and municipalities the advantage, for example, of optimised search functions, a simplified publications order process and an improved overview of the latest documents. The portal is enjoying prolific use, with around 88,000 visits a month.

### Strong demand for personal advice continues

Direct customer contact will always be key. Responses to around 1.1 million telephone, e-mail and fax enquiries in 2015 are proof of great need for information on the part of potential and existing customers. Almost one in two callers (47%) had questions concerning education, 41% requested information on the housing-related promotional offering and 12% on support for start-ups and existing enterprises. The results of regular customer surveys show that customer satisfaction with KfW advice, competency and friendliness is above average. Systematic optimisation of quality standards for telephone and written communication has had a clearly positive impact.

This is also confirmed by the experience gained from KfW's firmly established complaints management system. Overall, complaints received by the bank remain very low. The *Kundenmonitor Deutschland*, a regular independent survey taken by ServiceBarometer AG and a leading indicator of customer satisfaction in Germany, shows that the rate of KfW private customer complaints ranks at the lower end compared with other banks and savings banks.

The *Kundenmonitor Deutschland* survey also confirms an overall high level of satisfaction among KfW customers. Surveys of more than 30,000 customers at different companies, including at least 6,600 KfW customers, show that also in 2015 KfW rated well above average for banks and savings banks in customer satisfaction.

The "KfW Partner Portal" provides financing partners and multipliers with fast and specific information.

Customers are very satisfied with KfW's advice by telephone.

KfW wants to help its customers make decisions.

### **Joint sales and marketing activities**

Providing optimum support to financing partners in advising their customers on KfW products remained one of the marketing focal areas in 2015. The bank jointly developed sales and marketing packages with the individual partners to their requirements, using all relevant channels and contact points for addressing customers.

KfW undertook several regional and nationwide campaigns with its major financing partners to directly inform their customers about KfW promotion. To this end, KfW expanded its range of measures to include advisory aids such as short explanatory films. Financing partners also received individually tailored content on KfW's key products for easy integration into their websites. The Savings Banks Finance Group, for instance, is already making great use of this offer.

### **“Energy Efficiency in Enterprises” product campaign**

KfW has also been directly addressing potential customers. The aim is to support customers' decision-making process with relevant and easily comprehensible information. The focus in 2015 was the “Energy Efficiency in Enterprises” campaign, which included a TV advert, a print campaign and additional measures specific to target groups, besides comprehensive online activities.

All product marketing campaigns focused on addressing the relevant target groups at all key contact points in the information-gathering and decision-making process, whether via traditional or digital media.

Financing partners receive support in offering KfW product advice to their customers.



»» We support internationalisation  
Advantage and added value: As a financing partner KfW IPEX-Bank supports German and European companies in international competition – to secure growth and employment, to establish essential links for our globalised society and to preserve the means of livelihood and of sustainable living for future generations.

»» At a glance:

## Export and project finance in 2015

KfW IPEX-Bank is responsible for the international Export and project finance business sector within KfW Group.

KfW IPEX-Bank has supported mid-sized enterprises and large corporations as a reliable partner for more than 60 years. The specialist bank provides German and other European companies with tailored financing for their international business. This mandate, which is derived from the KfW Law, has relevance for society. This is because the international competitiveness and global orientation of industry in Germany and Europe secure employment, economic strength and prosperity.





## 41.3 square kilometres of renewable energy – the Nordsee One offshore wind farm

Together with nine other banks, KfW IPEX-Bank is financing the Nordsee One offshore wind farm, which covers an area of 41.3 square kilometres 40 kilometres to the north of the German island of Juist. Shallow water and high wind speeds provide virtually ideal conditions for an offshore wind farm. After their commissioning in 2017, the 54 wind turbines made by German manufacturer Senvion are expected to generate over 1,300 gigawatt hours of electrical energy per year – enough to power around 400,000 German households.

The owners of the 332 megawatt project with an investment volume totalling EUR 1.2 billion are Northland Power Inc., Toronto, and RWE Innogy GmbH, Essen. The international banking consortium is providing almost 70% of the project costs via non-recourse project financing of EUR 840 million.





Fleet modernisation: Together with other banks, KfW IPEX-Bank is financing two new cruise liners for TUI Cruises. The ships, which also set new standards in terms of environmental friendliness, are being built at the Finnish Meyer Turku shipyard.

### Cruising out to sea – two new ships for TUI Cruises

KfW IPEX-Bank is part of a banking consortium supporting the expansion of German cruise provider TUI Cruises with large-scale financing. This investment path includes ordering two more new-builds from the Finnish Meyer Turku shipyard, which, along with the Meyer Werft shipyard in Papenburg and the Neptun Werft shipyard in Rostock, is one of the world's leading cruise ship builders.

Together with UniCredit and another European commercial bank, KfW IPEX-Bank structured the total financing for the new ships as book runner and secured the order for Meyer Turku shipyard by committing to the total loan amount. Other banks subsequently participated in the financing. Its active involvement on behalf of

TUI Cruises once again underlines KfW IPEX-Bank's structuring skills in the field of ship financing.

With its fleet of currently four cruise liners operating under the name "Mein Schiff", TUI Cruises is one of the fastest-growing cruise lines in the German market. The fleet is expected to grow to six ships by 2017. Both new orders will successively replace the older vessels after their completion in 2018 and 2019, thus contributing to the modernisation of the fleet and also setting new standards in terms of environmental friendliness.

### Upgrading the metro in Santiago de Chile

It is an infrastructure project with a total volume of around USD 1.3 billion. In addition to modernising the existing network

including stations and trains, two new underground metro lines totalling 37 kilometres in length and 28 stations are also being built in Chile's capital. In order to help realise this major project, KfW IPEX-Bank is participating in a USD 800 million financing package as part of an international banking consortium.

The two new lines will connect a total of eleven surrounding communities with each other. Five of them are being connected to Santiago de Chile's urban railway system for the first time. This will significantly shorten the length of the daily commute to Santiago for approximately one million people. The modernisation work on the existing lines will also have a positive effect because it will enable energy savings of up to 30%.



### Airbus A380-800 for Asiana

Together with ING Capital LLC, KfW IPEX-Bank arranged a USD 227 million Coface-covered loan to Asiana Airlines, Inc., with a tenor of twelve years. The loan is for the South Korean airline to purchase an Airbus A380-800 aircraft, parts of which are being manufactured in Hamburg. As part of a complex financing structure, KfW IPEX-Bank assumed, among others, the role of security trustee.

The four-engine wide-bodied Airbus A380-800 has room for up to 853 passengers with its two full-length passenger decks. The largest civil commercial aircraft in mass production in the history of aviation is a European collective achievement. Final assembly is in Toulouse, with the cabin equipment added in Hamburg-Finkenwerder.

### Green light for green cable

The contract is sealed. KfW, represented by KfW IPEX-Bank, and the power grid operators TenneT and Statnett are together launching NordLink. The 516 kilometre-long subsea power cable will connect the electricity markets of Germany and Norway and enable the exchange of renewable energy. This will improve supply security, stabilise energy prices and boost the integration of the European electricity market.

Connecting Norwegian hydropower with German wind energy offers advantages for both countries. For example, if Germany generates an excess of wind energy, this can be transferred to Norway via Nord-Link and be used directly by the end users there. The reservoirs in Norway will then serve as natural storage for wind energy by

the water remaining in them. Conversely, Germany can import energy from Norwegian hydropower in the event of high demand. This makes the interconnector with its capacity of 1,400 megawatts a milestone in the energy transition.

# KfW IPEX-Bank business performance – we support internationalisation

**As a specialist financier, KfW IPEX-Bank is responsible for the business sector Export and project finance within KfW Group. The mandate of the legally independent group company is to support the internationalisation of German and other European companies. The structuring of medium and long-term financing for key industrial sectors of the export economy, for economic and social infrastructure projects and for projects targeting climate and environmental protection are at the core of its activities.**

In its business, KfW IPEX-Bank focuses on the key industries relevant for the German and European export sector. The bank's clients include mid-sized enterprises and large corporations.

So that these companies can realise their potential in high-technology sectors of global markets, it must be ensured that industry is sufficiently supplied with commodities. Due to the lack of certain resources in Germany and Europe, KfW IPEX-Bank finances projects and transactions around the world that facilitate the import of commodities. Only in this way can products be manufactured whose high quality also enables them to be traded globally.

Efficient infrastructure and cross-border networks are basic prerequisites for this global exchange of goods and services. KfW IPEX-Bank takes account of their significance by supporting the expansion of road, rail, energy and data networks, and of airports and seaports with its loans. Moreover, the bank finances investments in means of transport, such as aircraft, ships and rail vehicles. It is also involved in the area of expanding social infrastructure and provides the debt financing necessary to build and modernise hospitals, schools and other administrative buildings, frequently structured as public-private partnerships (PPPs).

At the 21st United Nations Climate Change Conference in Paris, the 196 countries represented reached a new global agreement on climate protection. The stated objective is to limit global warming to a maximum of two degrees Celsius compared to pre-industrial levels by the year 2100. New approaches and fresh ideas are needed so that these efforts will not

KfW IPEX-Bank is an integral part of KfW Group. Its task is to support German and European companies in their international business – to secure growth, employment and prosperity.

A solid export industry opens up societal prospects and ensures economic strength, employment, growth and prosperity. KfW IPEX-Bank creates a foundation for these prospects. Its tailored loans, which are based on over 60 years of experience, help German and other European companies to stay competitive in the global marketplace and to expand their export success. This demands and supports innovations and creates future prospects for our position as an economic centre.

Inherent to banking in the field of export and project finance is its internationality. Most projects are so large that one bank alone cannot support them. KfW IPEX-Bank therefore operates in partnership with other commercial banks, particularly in large international syndicated financing projects, and in certain areas also increasingly with institutional investors. It contributes all its structuring experience – for the benefit of German and European export companies, which thus succeed in entering global sales markets in industrialised and emerging market countries. KfW IPEX-Bank's tasks are based on KfW's legal mandate.

Syndicated financing and bank clubs: KfW IPEX-Bank generally provides large scale debt financing together with market partners.

be in vain. Relevant task areas such as energy efficiency, renewable energy and new production and environmental processes are becoming more of a focus. In many of these areas, European and in particular German companies are the world's leading providers – with KfW IPEX-Bank offering support. Financing energy and environmental projects is one of its core tasks. The bank supports its clients by offering them extensive industry knowledge and many years of structuring experience. Each one of its transactions contributes to the implementation of the international community's objectives.

#### **Stable demand for export and project finance**

The global economy lost momentum in 2015, although the picture was mixed, even contradictory, across the different economic areas. The economy stabilised in the industrialised nations, driven by the USA and the euro area. This was facilitated by the labour markets, private consumption, low energy prices and the continuing favourable interest rate environment. Development was less positive in other industrialised nations in 2015.

The group of developing and emerging market countries experienced negative growth for the fifth year in a row in 2015. Many large emerging markets in particular faced strong headwinds, and geopolitical tensions continued to affect the global economic situation in important regions. Not least as a result of this, there was a further decrease in commodity prices, particularly in crude oil, during the year. This in turn led to investment reticence in the upstream and downstream areas. The depreciation of the euro, in contrast, had a positive impact for the German and European export industries and their production.

Keen competition continued to prevail in the market for large-volume export and project financing, particularly from banks from Europe, North America and Asia, albeit increasingly also from banks from emerging economies. In addition, institutional investors, driven by high investment pressure in the low interest rate environment, also advanced into the credit market.

Overall, global demand for capital goods produced by German and European manufacturers was largely stable. The demand was also accompanied by high lending supply and alternative financing opportunities in 2015.

#### **Excellent development in new business**

KfW IPEX-Bank's financial statements for 2015 document the bank's strongest result in its history. In its responsibility for the Export and project finance business sector, KfW provided financing totalling EUR 20.2 billion in 2015. In its original credit business it achieved a commitment volume of EUR 17.4 billion (2014: EUR 15.4 billion). In addition, new commitments to refinance banks under the CIRR ship financing scheme – agency business managed on behalf of the German Federal Government – were, at around EUR 2.2 billion, nearly EUR 1 billion higher than in the previous year (2014: EUR 1.3 billion). The equity investment for realisation of the NordLink subsea power cable project in the amount of EUR 600 million can also be added to the new commitment volume.

This record result impressively demonstrates the strength of KfW IPEX-Bank's business model. However, it also reflects beneficial factors that unleashed their positive effect in interplay with each other in 2015. For example, longer-term planned

Against a background of largely stable demand for German and European capital goods, significant competition prevailed in the E&P market.

Record year: KfW IPEX-Bank granted financing totalling EUR 20.2 billion in 2015.

Project, export, investment and acquisition financing in important key industries – mid-sized enterprises and large corporations benefit from 60 years of structuring experience.

financings were concluded in the reporting year, documenting the success of sales initiatives begun earlier. In addition, business in 2015 was shaped by several large-scale individual financings – for offshore wind farms and cruise ships, but also, for example, by the non-recurring effect of the NordLink subsea power cable transaction. In conclusion, it can be seen that the bank especially fulfils its mandate of supporting the German and European export economy through tailored financing of international business activities in this area.

### New commitments by sector department

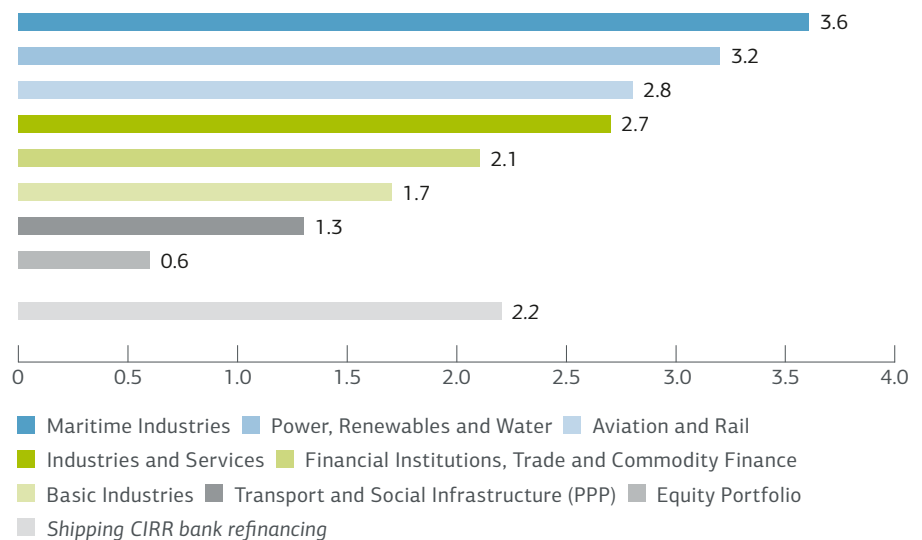
As a reliable partner – both for clients and for other credit institutions in syndicated financing – KfW IPEX-Bank supports the efforts of German and other European companies to go international. The specialist bank’s offering is aimed at mid-sized enterprises and large corporations in key industries important to the German and European economy. In addition to the environmental and energy

sectors, these include basic industries, automotive and mechanical engineering, retail, and the pharmaceuticals, speciality chemicals, health and telecommunications sectors. Within transport and infrastructure, the bank focuses on its sector departments Maritime Industries, Rail and Aviation, as well as Transport and Social Infrastructure. Particularly in the financing of ships, rail vehicles, aircraft, energy projects and in basic industries, KfW IPEX-Bank’s structuring know-how enjoys high standing across the globe.

Its employees’ many years of experience with structuring complex transactions and their deep sectoral and market understanding enable the bank to play a part in the world’s largest and most renowned financing projects, mostly in combination with other credit institutions, which together provide large-volume debt financing. KfW IPEX-Bank regularly undertakes different agent roles in the so-called clubs and thus additionally contributes to the success of its customers’ business.

### New commitments by sector department (EUR in billions)

Total: EUR 20.2 billion<sup>1)</sup>



<sup>1)</sup> Differences in the totals are due to rounding.



All sector departments of KfW IPEX-Bank made a positive contribution to the overall result in 2015. At EUR 3.6 billion, the Maritime Industries sector department reported the largest new lending volume. For example, supplies of components from German and European specialist manufacturers were financed as part of international ship projects, as were special vessels for the offshore industry and fuel-efficiency-increasing modernisation investments by large shipbuilders in the field of retrofitting. However, it was primarily large-scale financings of cruise ships that contributed to the strong performance, with a significantly positive effect on the utilisation of German and other European shipyards and their qualified suppliers. The Power, Renewables and Water sector department proved another important growth driver. In 2015 in particular through its involvement in financing onshore and offshore wind projects and highly efficient combined cycle power plants, its new business commitments added up to EUR 3.2 billion. At EUR 2.8 billion, Aviation and Rail also con-

tributed to the overall excellent business development.

### Focus on target markets for the export industry

Products and services from Germany and other European countries are in demand globally. The origin of the goods is already considered a seal of quality and reliability. KfW IPEX-Bank contributes to converting this reputational advantage into real orders, production and added value by supporting the global marketing of German goods and services through tailored financing. KfW IPEX-Bank supports its clients in industrialised countries, but also in growth markets in developing and emerging market countries that are important for both their exports and direct investment. The bank additionally offers companies medium and long-term investment and environmental financing for projects in Germany.

KfW IPEX-Bank has more than 60 years of experience in structuring complex export and project financing arrangements. As a reliable partner both for clients and for

In order to support internationalisation as well as possible, KfW IPEX-Bank is present in the important markets for the German and European export economy. It maintains a total of nine representative offices and a branch office in London.

KfW IPEX-Bank also intentionally serves as a reliable partner in countries where access to financing is difficult.

## KfW IPEX-Bank abroad



In its global business, the bank voluntarily follows strict international sustainability standards.

other banks and institutions with whom it collaborates to jointly finance larger projects, KfW IPEX-Bank is also intentionally active in countries where access to financing is difficult. In order to be able to support internationalisation as well as possible, it is present in markets that are important for the export economy of Germany and other European countries. KfW IPEX-Bank maintains a total of nine representative offices in Abu Dhabi, Istanbul, Johannesburg, Mexico City, Moscow, Mumbai, New York, São Paulo and Singapore, and a branch office in London. In order to strengthen its presence in South-east Asia, the representative office in Singapore was expanded in line with long-term plans. As part of this, the capacity of the Bangkok representative office was moved to Singapore and the office there was closed at the end of October 2015. In view of growing import and investment opportunities in other emerging markets too, KfW IPEX-Bank plans to moderately expand its foreign representation.

Complaint mechanism installed – an online form has given potential complainants direct access to the bank since 2015.

In 2015, 24% of new loan commitments were in Germany (EUR 4.2 billion), 39% in the rest of Europe (EUR 6.7 billion) and 37% in countries outside Europe (EUR 6.4 billion). The proportion of new business in emerging markets was stable at approximately 28%. Even though the rate of expansion in these regions has slowed during the reporting year due to the persisting geopolitical crises, they continue to demonstrate their major significance as growth drivers for the global economy. They offer German and European companies new business opportunities, which KfW IPEX-Bank supports as a reliable partner with a long-term approach.

### Responsibility

The international nature of KfW IPEX-Bank's exposure has global environmental, social and economic dimensions. With this in mind, the bank aims in particular to finance projects and exports that will have a positive impact on the climate and environment. As early as eight years ago, the bank joined the Equator Principles Financial Institutions (EPFIs). This global association now comprises around 80 equator banks, which adhere to a comprehensive voluntary framework in order to meet environmental and social standards. This includes

compliance with the World Bank Group's International Finance Corporation Performance Standards (IFC-PS) and Environmental, Health, and Safety (EHS) Guidelines. The equator banks maintain a regular dialogue in which KfW IPEX-Bank also participates in order to further enhance these standards.

The bank's own sustainability guideline for environmentally and socially sound financing (Sustainability Guideline) goes even further. In addition to compliance with the Equator Principles and the OECD's ECA Common Approaches, KfW IPEX-Bank has voluntarily agreed to review all remaining financing products in addition to project and export financings.

Since summer 2015, KfW IPEX-Bank has also installed a simplified, publicly accessible mechanism for submitting complaints on environmental and social matters. For example, an online form on the website gives potential complainants direct access to the bank. Complaints can be submitted by any individuals or organisations experiencing adverse effects as a result of projects financed by the bank; for example, if they are affected by relocation measures or feel their interests were not sufficiently taken into account in the approval process. In the context of project financing, KfW IPEX-Bank also has high requirements for its borrowers and asks them to set up and maintain a complaint mechanism for the duration of the project and to document the results.

### Environmental and social impact assessment in international business

In order to avoid potential risks for society and the environment, KfW IPEX-Bank subjects planned financings to an environmental and social impact assessment. In accordance with its Sustainability Guideline, at the start of its credit approval process it categorises all projects as A, B or C based on the degree of their potential environmental and social impact. Any projects that may result in considerable, wide-ranging and to some extent irreversible impacts are classified in category A. This covers projects with a major, invasive impact on the ecosystem, such as raw materials or dam projects. Category B is for projects which have a more moderate impact on the environment and society

and are usually controllable by the use of state-of-the-art technology; this applies to many industrial projects. Projects with no impact, negligible negative impacts or purely positive environmental and social impacts are classified in category C.

For lending enquiries regarding projects that need to be assessed in depth, KfW IPEX-Bank only provides the relevant financing when all internationally accepted environmental and social standards have been met, which may only be achieved by the fulfilment of additional requirements. Countries with established approval and monitoring practices are identified as “designated countries” in accordance with the EPFI/Equator Principles Association. They are assumed to have rules comparable with German and European guidelines. External experts and consultants participate in the environmental and social impact assessments to assess project risks. They are supported on a project-by-project basis by KfW’s experts in technology and the natural and social sciences.

### Climate and environmental protection projects in core business

KfW IPEX-Bank provided financing of EUR 4.1 billion for projects with a clear and measurable positive impact on climate and the environment in 2015. This corresponds to around 20.5% of the total commitment volume and thus represents an important contribution by the bank to achieving KfW Group’s ambitious climate and environmental protection targets.

In 2015 it financed projects in the field of renewable energy, but also included highly efficient conventional energy generation, environmentally friendly means of transport such as rail vehicles, and investments in energy-efficient and environmentally friendly production facilities in the Industries and Services sector department.

In Maritime Industries, KfW IPEX-Bank supports more efficient and environmentally friendly maritime shipping by financing retrofitting measures. In retrofits, modifications are undertaken to the ship engine, bow or propeller, for example, to improve energy efficiency. KfW IPEX-Bank continues to attach great importance to “eco-shipping”, or the energy efficiency of

ships financed by the bank, employing an assessment method jointly developed with Germanischer Lloyd. This enables the bank to take the energy efficiency of a vessel into account as an additional criterion when making its financing decision and to favour more energy-efficient ships over traditionally built ones. This benefits the environment and also makes economic sense because the environmental aspects also increasingly affect the likelihood of chartering, and thus also the risk of default.

All of this underscores that KfW IPEX-Bank accepts responsibility and is committed to improving ecological living conditions – both in Germany and in the destination countries of exports around the globe.

### Economic and financial results for 2015

2015 was an extraordinarily successful year for KfW IPEX-Bank. The contribution of EUR 628 million to KfW’s consolidated earnings confirms KfW IPEX-Bank’s role as one of the main sources of revenue for KfW Group. The business sector again actively contributed to securing KfW’s long-term promotional capacity – despite a challenging economic and market environment.

The operating result of the Export and project finance business sector, which is managed by KfW IPEX-Bank, was, at EUR 690 million, higher than the level of the already successful previous year. It largely comprised net interest income, which increased significantly over the previous year, and net commission income, after deduction of the only slightly increased administrative expenses. The risk provisions for the lending business also had an extraordinary effect on the result – actually a positive one in this case, meaning that due to net reversals of provisions, the overall result from ordinary business activities totalled EUR 722 million. In general, all recognisable risks were nevertheless taken into account through appropriate risk provisioning.

Very strong operating income before taxes was also reported for the legally independent KfW IPEX-Bank GmbH, whose accounts are balanced separately. KfW IPEX-Bank GmbH conducts all export and project finance market transactions. The volume

The bank made an important contribution to achieving KfW Group’s ambitious climate and environmental protection targets in 2015.

KfW IPEX-Bank contributed EUR 628 million to KfW’s consolidated earnings, again playing an active role in securing KfW’s long-term promotional capacity.

Target for 2016: To further strengthen its position as a reliable specialist financier and stable partner to key industries important to the German and European economy.

of lending for the Export and project finance business sector amounted to EUR 69.4 billion as of 31 December 2015 (31 December 2014: EUR 64.3 billion).

**Outlook for 2016:  
Supporting internationalisation  
as a reliable banking partner**

The global economic basis for KfW IPEX-Bank's business will remain positive in 2016 because global economic momentum is expected to be somewhat higher than in the previous year. This is based on the forecast that the economy in industrialised countries is growing slightly more strongly than before – which should apply particularly to the USA, the euro area and Germany. Consumers in the euro area are benefiting from a gradual improvement in the labour market situation and the renewed fall in energy prices. Fiscal policy is also lending some support for the first time since 2010. Within the group of developing and emerging market countries, growth differences remain considerable since many regions are affected by political tensions and crises that have an adverse effect on economic growth. A growth rate at the level of the previous year is expected for the majority of this group of countries – yet it still remains far from the momentum of earlier years. Overall, the demand for exports from Germany and Europe and consequently also for appropriate financing is likely to remain stable.

High liquidity at banks and also institutional investors who continue to feel high investment pressure due to the sustained low interest rate environment continue to create intense competition in 2016. KfW IPEX-Bank actively aims to structure tailored syndicated financing that serves to support the export projects and investment plans of German and European industry in constructive collaboration with its market partners.

In the context of the various framework conditions relevant to the market, KfW IPEX-Bank is targeting its business in 2016 at further strengthening its position as a reliable specialist financier of, and stable partner to, key industries important to the German and European economy. All in all, the development in the sales markets in industrialised and emerging market countries continues to offer export opportunities for German and European companies. In 2016, KfW IPEX-Bank will therefore continue to focus on its role as a supporter of the German and European economy, which it assists with tailored medium and long-term financing of exports and foreign investments as the economy internationalises. The business sector Export and project finance continues to plan on moderate organic growth for financial year 2016. As the success of 2015, which largely resulted from individual factors, cannot be automatically carried over to the future, the new commitment volume target for 2016 is EUR 16.2 billion.

## »» We promote development

Our goal is to improve the living conditions of people in developing and emerging market countries and to promote a climate-friendly economy. The business area KfW Development Bank and KfW subsidiary DEG therefore promote climate and environmental protection, the expansion of public infrastructure, and private economic initiatives as drivers of sustainable economic and social progress.

# »» At a glance: Promotion of developing and emerging market countries in 2015

KfW and DEG work on behalf of the Federal Government to help developing and emerging market countries achieve economic progress, reduce poverty and protect the climate and environment.

Innovation and technical progress play a key role in achieving these development goals. And whether it is using satellite images to monitor irrigation in inaccessible crisis regions, providing medical care for people in remote areas via “telemedicine”, or supplying rural regions with off-grid solar power, KfW and DEG provide their partner countries with effective support in innovating and employing the latest technology.



### Swift aid for drought victims in Africa

A new form of drought insurance helped a lot of people in Senegal, Niger and Mauritania in 2015. For the first time during a major drought, these three countries received a payout of some USD 26 million from the African Risk Capacity Insurance Company (ARC), founded with several other African countries. The money was used to buy food, as well as animal feed



for around 500,000 animals, which overall served to help some 1.3 million people. On behalf of the Federal Ministry for Economic Cooperation and Development (“BMZ”), KfW contributed approximately USD 50 million in seed capital to ARC to help it get established. A total of more than USD 190 million was mobilised for the new insurance company in 2015 from other donors and the premiums paid by the insured countries. It is intended to provide support in times of need for African countries particularly affected by climate change.

In order for countries to take out an insurance policy, their governments must indicate how they plan to use the money in the event of a drought. Such contingency plans are assessed by independent experts before a contract is signed. The three aforementioned West African countries fulfilled these conditions. Satellite images revealed early on that very little rain had fallen in the region and that crops would yield a poor harvest; this therefore constituted a claim.

The money was paid out promptly, so the people received help quickly. The new insurance company has thus passed the test. The plan is to expand it to more countries and also insure against additional risks such as cyclones and floods.

### Better prospects for people in crisis regions

The situation remains precarious in Northern Mali, where the people are still suffering from the effects of the conflict that broke out in 2012 – although safety has improved. The Malian people need better

prospects to enable peaceful development in the crisis region. Agriculture and livestock are their main sources of livelihood. Irrigation would drastically increase yields in the dry and barren north of the country, and consequently improve farmers’ income.

KfW is helping the local people to better irrigate their fields on the banks of the Niger and its distributaries near Timbuktu on behalf of the BMZ and in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Canadian government. This improves the agricultural potential of an area of 18,700 hectares. An additional measure under this project is to construct dams around natural depressions in order to keep the water that fills them during the flood tide.

The progress of the project can be monitored even in areas often inaccessible for safety reasons, thanks to modern technology. Satellite images show how many fields have been adequately irrigated, which is a key condition for effective aid in crisis-stricken Mali.

A plot of land of just a quarter hectare can yield enough rice to feed a family for six months. This is how the project secured food for half a million people in the remote region and created jobs – both important factors on the road to peace in the fragile area.

### Promoting social entrepreneurship in Asia

Many developing and emerging market countries in Asia have recently made vast improvements to their economic situations. Nevertheless, over 50% of people there

Sufficient and controlled irrigation of the fields will considerably improve yields for Malian farmers – and thus help to secure the food supply as well as peace in a crisis-stricken region.

still have to live on less than USD 2.50 per day. A lack of basic services, poor access to education and unstable employment conditions are just some of the reasons for this.

This is where the Aavishkaar Frontier Fund comes in. It was set up in 2015 to support social entrepreneurship in Asia and stocked with USD 10 million from the BMZ via KfW. DEG contributed an additional USD 10 million. The fund invests in very young, innovative companies which offer products and services aimed

primarily at disadvantaged areas of the population or create jobs for people primarily in the low-income bracket. The project is building on the positive experience of the Aavishkaar II fund, which was set up in 2011 to promote social entrepreneurs in India – also with KfW’s help.

The projects promoted range from affordable basic medical care in rural areas, through intuitive learning aids for children from poor families, to international marketing of sustainably produced clothing. The company Ulink Bioenergy, promoted

since 2013, has a particular success story to tell. Using modern mobile telephone and Internet technology, small-scale farmers even in remote areas can order high quality seeds and affordable modern tools via a free call back or a simple click of the mouse. The products are delivered quickly and directly to the farmers, who thus avoid the middleman and benefit from better quality and clear price advantages. This serves to increase their productivity and significantly improve their livelihood.



## Improved healthcare in Indonesia

KfW Development Bank is helping to further improve healthcare in Indonesia, on behalf of the Federal Government, through the use of forward-looking medical technology. For example, the Dr Wahidin Sudirohusodo Hospital on Sulawesi, the fourth-largest island of the Indonesian archipelago, was extended; new buildings were added, modern medical equipment acquired and laboratories better outfitted. The hospital’s management was also advised on how to administer the facility more effectively and at lower cost. The hospital now provides much better medical services for the region’s around eight million residents. And poor people are also able to use it, because Indonesia has recently introduced a new social health insurance system.

Sulawesi is not the only region to benefit from modern medical technology; more regional hospitals are to be built and existing ones updated in Aceh, which was badly affected by the tsunami of 2004. Rapid data transfer via Internet enables new treatment opportunities such as “telemedicine” there, too. This allows specialist physicians at other locations to be consulted via video during difficult medical procedures. They can also view operations and help to analyse blood samples and x-ray images. These innovative methods serve to improve the quality of healthcare considerably, particularly in remote areas.





## DEG – a reliable partner to German businesses abroad

KfW subsidiary DEG is a reliable partner to German companies making investments abroad. For instance, it supported the SME adhesive manufacturer Jowat SE in relocating its production to another site within Malaysia. The new plant of the company's subsidiary Jowat Manufacturing Sdn. Bhd. was opened in April 2015. DEG provided a long-term loan of EUR 6.5 million for the new production facilities and the acquisition of plant and machinery. Jowat has been active in Malaysia for more than a decade. Production capacities at the old site were no longer sufficient given the increased demand in Asia. Founded in 1919 and based in Detmold, North Rhine-Westphalia, the company with more than 1,000 staff produces and markets industrial adhesives.

The new plant is located in the Bandar Enstek industrial park near Kuala Lumpur's international airport. Jowat constructed facilities to the latest technical standards on a site of 45,000m<sup>2</sup> over a period of around 14 months, using German engineering technology.

### **DEG – development opportunities through technological progress**

As one of Europe's largest providers of development finance, DEG has been supporting private companies that invest in developing and emerging market countries for more than 50 years. The private sector is a key player in creating jobs, income and prospects; the importance of its role as a driver of development in 2015 was underscored at the International Conference on Financing for Development in Addis Ababa and through the UN's Sustainable Development Goals.

Technological progress provides the key impetus to make developing countries viable for the future. This includes reliable and fast Internet access. This is why DEG together with Vantage Capital has invested in Ghanaian mobile telephony and Internet provider Surfline Communications Ltd. Surfline is establishing an LTE network in Ghana that is ten times faster than the mobile Internet currently used there via mobile and smart phones.

### **Promoting SMEs to create jobs**

Small and medium-sized enterprises (SMEs) are important drivers of economic growth and job creation. It is precisely in developing and emerging market countries that such companies often lack access to the financial services they require to develop their innovative ability and growth potential. DEG not only provides direct financing to SMEs, but also makes targeted investments, for example in banks that lend to SME customers in developing countries. It provided a total of EUR 632 million for this purpose in 2015. SME financing went to countries such as Chile, Zambia and Cambodia.

### **Helping more German companies become active abroad**

DEG's financing and promotional programmes reached more than 110 German businesses in 2015. It provided those companies with financing in the amount of EUR 138 million for their projects in developing and emerging market countries, and a further EUR 26 million via promotional programmes. The regional focus of German business was Africa in 2015, with new commitments of around EUR 60 million.

### **Award-winning commitment to environmental issues**

The Egyptian SEKEM initiative has been cultivating and processing organic raw materials for use in teas, food products, textiles and medicines for almost 40 years. It received the "Land for Life Award" from the United Nations Convention to Combat Desertification (UNCCD) in 2015 for its innovative approach to promoting sustainable land use and relentless commitment to fighting soil erosion. DEG has been financing and advising SEKEM for more than 20 years. The initiative has created some 2,000 jobs since it was founded.

### **Launching sustainability initiatives**

DEG supports deserving initiatives from various sectors as part of its sustainability commitment. For example, it has been helping financial institutions in Kenya and Sri Lanka to develop self-commitments to environmental and social soundness principles since 2013. These principles were approved by the majority of the most important banks in both countries in the autumn of 2015.

### **Added value for enterprises in developing markets**

Private enterprises active in developing markets often face particular challenges and therefore require a lot of advice. That's why DEG offers its customers Business Support Services (BSS), with the aim of increasing their growth and the developmental effects of their work sustainably, through conceptual and financial support.

One example is DEG customer Afriland First Bank (AFB) from Cameroon, which worked together with DEG to develop a business intelligence solution, or reporting tool, that enables evaluation of data on business operations. The AFB used this to further professionalise its reporting.

DEG also offers energy and resource efficiency checks under BSS, for example, it co-financed a resource efficiency check for a banana producer in Ecuador. Banana stalks on the plantation are now chopped into small pieces and turned into compost. Thanks to this innovative and simple measure the plantation requires less artificial fertiliser and at the same time reduces costs.





Ohorongo Cement Ltd., a subsidiary of the German company Schwenk KG, is established as a producer and supplier of cement in Namibia.

### **Sustainable entrepreneurial success for DEG customers confirmed**

The renowned consultancy firm Steward Redqueen has analysed DEG's projects in Brazil, Namibia and Vietnam. One of the studies shows how Ohorongo Cement Ltd., the first cement producer in Namibia, established itself as a reliable producer and supplier of high-quality cement in just four years. To get to this position, the company has harnessed primarily local and national workers and resources, and in so doing, has boosted economic development in Namibia. DEG has been advising and financing Ohorongo since 2009.

# Business area

## KfW Development Bank – for better future prospects worldwide

**KfW promotes development programmes in Africa, Asia, Latin America and South-eastern Europe on behalf of the Federal Government. It supports developing and emerging market countries in improving living conditions and protecting the climate and environment. Business area KfW Development Bank also financed numerous projects in various sectors in 2015, from protecting rainforests in Latin America, through food aid for refugees in crisis areas, to insurance funds to provide protection from the effects of climate change.**

Business area KfW Development Bank has maintained its high level of new commitments. The second highest sum ever, around EUR 6.7 billion (record year 2014: EUR 7.4 billion), was provided on behalf of the Federal Government in 2015 for development projects around the world. A significant portion of new commitments (EUR 955 million) went to the crisis-ridden North Africa/Middle East region. The proportion of commitments to the poorest partner countries also increased, with 44% of federal budget funds going to projects in sub-Saharan Africa (2014: 39%). Almost 60% of new commitments promoted projects and programmes relating to climate and environmental protection (2014: 64%).

### **Bank and development institution**

KfW has supported the Federal Government for more than 50 years now in achieving its goals in development policy and international cooperation. The Federal Government's strategic guidelines and policies thus serve as the basis for KfW Development Bank's scope of activities.

KfW's role in German Financial Cooperation (FC) is that of both an experienced

bank and a specialised development institution. It promotes and supports programmes and projects on behalf of the Federal Government – from the first conceptual idea, through implementation, to the subsequent assessment of results. To this end, KfW also applies the experience it has gained in its domestic promotional business. The projects are established in such a way that they motivate follow-up investments, providing an incentive for private sector participation and thereby laying the groundwork for broad-based transformation processes.

### **2015 – a year of summits crucial to development and climate finance**

2015 was a seminal year for KfW, with the international community adopting key resolutions on development and climate finance, as well as development policy objectives at three important conferences and the G7 summit under German presidency.

The G7 heads of state and government resolved key development policy initiatives in June, on issues including access to climate risk insurance and the expansion of renewable energy, but also on securing food provision, women's economic empowerment, fair working conditions and reinforcing healthcare systems. These resolutions set a precedent for the three UN conferences held in 2015:

– The UN General Assembly adopted a post-2015 development agenda in New York in September to follow the Millennium Development Goals (MDGs) due to expire at the end of 2015. The 2030 Agenda for Sustainable Development combines economic and social development targets with environmental sustainability targets for the first time. The new Sustainable Development Goals (SDGs) apply equally to industrialised, emerging

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market and developing countries and thus form the basis of a new global development partnership. The need for financing for projects under the SDGs will increase massively, particularly for those relating to infrastructure and climate issues.

- The UN's Financing for Development Conference had already been held on this matter in Addis Ababa in July 2015. The aim was to draft a financing concept for implementation of the SDGs that would include both public and private resources at national and international level.
- The UN Climate Change Conference in Paris (COP21) saw a new international agreement on climate drafted in November/December 2015, obliging all countries to keep global warming well below 2°C through climate protection measures. The industrialised nations also

agreed to continue climate protection financing, which is expected to amount to at least USD 100 billion p. a. from 2020, and benefit climate-related projects in developing countries.

#### Development financing from federal budget and own funds

A significant portion of the funds used stems from the Federal Government's budget. KfW also relies to a great extent on own funds it has raised on the capital market. KfW's own funds totalled around EUR 4.3 billion in 2015 (2014: EUR 5.4 billion) and thus a 64% share of total new commitments of the business area KfW Development Bank (2014: 73%).

The lion's share of own funds are counted as German Official Development Assistance (ODA). In this way, KfW supports the Federal Government in meeting its international obligations in combating poverty and protecting the climate and environment.

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#### The most important FC financing instruments

**Grant/standard loan:** financing provided exclusively from German Federal Government budget funds. Standard loans – highly subsidised loans with very long terms from federal budget funds – have to be repaid by the borrower; grants do not.

**Development loan:** combination of federal budget funds and funds that KfW raises on the capital market. Combining funds enables the loan terms and conditions to be adjusted to the economic strength of the borrower country and features of the project.

**Promotional loan:** loans to partners in developing countries financed solely from KfW's own funds raised on the capital market. The loans are used for projects that have a development impact, but for which financing via the commercial banking sector is not offered (for example, due to the longer financing period necessary).

**Delegated funds:** a form of cooperation in which KfW makes and assumes responsibility for contributions on behalf of other bilateral and multilateral donors. These funds from other donors are often pooled with money from German development cooperation to enable larger projects to be realised.

KfW's new commitments for climate-related projects in developing countries on behalf of the Federal Government amounted to some EUR 3.9 billion in 2015 – a major contribution to Germany's international climate financing.

### **A climate protection breakthrough with KfW as international trailblazer**

The resolutions of the COP21 set a clear precedent for climate protection and adaptation around the world.

KfW had already shown itself to be a trailblazer in international climate finance prior to the COP21. KfW's new commitments for climate-related projects in developing countries on behalf of the Federal Government amounted to some EUR 3.9 billion in 2015, constituting a major contribution to Germany's international climate financing. The carbon emission reductions it has achieved through its projects over the past ten years now account for around 10% of all German greenhouse gas emissions. A few examples of KfW's commitment to climate protection:

#### **First KfW project for the Green Climate Fund (“GCF”)**

KfW will be implementing one of the first Green Climate Fund (GCF) projects in Bangladesh. The climate adaptation project will help to better protect some 85,000 coastal residents from storms and floods.

KfW will be implementing one of the first Green Climate Fund (GCF) projects in Bangladesh. The climate adaptation project has a volume of USD 80 million, of which USD 40 million comprises a grant from the GCF; around USD 15 million was provided by KfW from BMZ budget funds and USD 25 million from the Bangladeshi government. It will help to better protect some 85,000 coastal residents from storms and floods. In three of the country's poorest districts, 45 new cyclone protection shelters are being erected, 20 more rehabilitated and 80 kilometres of storm-resistant access roads built. KfW was accredited as one of the first implementing entities of the GCF at the beginning of 2015. The fund's volume is currently USD 10.2 billion.

#### **Energy transition on the international stage: integrating renewable energy into the South African grid**

KfW has granted a promotional loan in the amount of ZAR 3.94 billion (EUR 300 million) to the South African state energy provider ESKOM. This is to be used to significantly help modernise the South African power grid and, in particular, to connect solar and wind energy plants to the grid. Among other things, the loan will be supporting the connection of two power plant projects to the grid which KfW has already agreed to help finance – the Kiwano solar

plant in Upington and the Ingula pumped storage scheme in Braamhoek.

#### **Closer cooperation for forest protection with “REDD for Early Movers by KfW”**

Germany, Norway and the UK agreed at the COP21 in Paris to further increase their commitment to international forest conservation. They plan to raise their contribution by USD 5 billion by 2020, thereby supporting the REDD for Early Movers (REM) programme implemented by KfW on behalf of the Federal Government, which rewards countries pioneering in the area of Reducing Emissions from Deforestation and Forest Degradation (REDD).

REDD gives financial rewards for proven emission reductions, i.e. for reducing deforestation.

While in Paris, KfW signed mandate agreements with Norway and the UK, and financing contracts with Colombia. This means three donors are coming together for the first time to implement results-based financing in a large tropical rainforest country via KfW to the tune of over USD 100 million.

#### **“eco.business Fund” to promote sustainable enterprises in Latin America**

On behalf of the BMZ and in collaboration with representatives of the EU, NGO Conservation International and fund manager Finance in Motion, KfW launched the “eco.business Fund” as part of COP21. The fund finances Latin American enterprises from the agriculture, fisheries, forestry and eco-tourism sectors which employ particularly environmentally friendly business practices. This makes a material contribution to biodiversity conservation, adaptation to climate change and climate protection. The fund volume was almost USD 60 million at the end of 2015. The EU plans to make a total contribution of EUR 16 million.

#### **LDCs and fragile countries remain important partners**

The **least developed countries** (LDCs) with average gross national income per capita of less than USD 992, according to the UN, are important partners to KfW, along with emerging market countries.

These countries receive financial support from the Federal Government via KfW, above all in the form of grants and highly concessionary loans. A significant portion of budget funds – EUR 944 million or 44% – was put to use in sub-Saharan Africa in 2015.

2015 was strongly marked by the **refugee crisis**, with some 60 million people seeking refuge from war, expulsion and natural disasters – the highest number seen since World War II. Towns in neighbouring countries are particularly affected by the masses of refugees, as their infrastructures are not suitable for such large numbers of additional people. KfW financed 39 projects providing direct support to refugees and the towns and villages taking them in with a total of around EUR 645 million:

- The conflict in eastern Ukraine drove at least 2.6 million people to flee their homes, of whom 1.5 million found refuge elsewhere within the country. These domestic refugees put a lot of pressure on what is already an over-burdened infrastructure in many places. For this reason, KfW is supporting the Ukrainian Social Investment Fund (USIF) with a total of around EUR 37 million on behalf of the BMZ and with its budget funds, in its rehabilitation and extensions of buildings such as hospitals, kindergar-

tens and refugee accommodation. In addition, KfW is financing the reinforcement of the Ukrainian deposit guarantee scheme with an untied loan of EUR 200 million on behalf of the Federal Government. A further EUR 300 million in untied loans is planned, in particular for the rehabilitation of the energy and municipal infrastructure in the east of Ukraine, the region most affected by the conflict.

- Burundian and Congolese refugees receive aid in Tanzania from the UN's World Food Programme (WFP). KfW has supported the work of the WFP with EUR 14 million on behalf of the BMZ. These funds enable the WFP to provide food rations for six months to more than 180,000 refugees in transit and refugee camps, including special enriched foods for particularly vulnerable groups such as pregnant women, breast-feeding mothers and children, thereby relieving or preventing malnutrition.
- KfW financed projects in Syria's neighbouring countries on behalf of the BMZ to the tune of EUR 270 million in 2015 via various UN organisations and government partners. These included distributing free e-cards for free grocery shopping, and financing container schools and teachers, as well as pro-

KfW partners also include the least developed countries (LDCs), with a three-year average gross national income per capita of less than USD 992.



### Initiatives for climate protection

KfW implements a variety of climate protection initiatives on behalf of the German Federal Government, including the International Climate Initiative ("IKI") for the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety ("BMUB"), and the German Climate Technology Initiative ("DKTI") for the BMZ and the BMUB. Agreements on development loans of a total of EUR 125 million were signed in India in 2015 as part of the DKTI, to establish "Green Energy Corridors". These will finance transmission lines, including the necessary infrastructure, to feed electricity from renewable energy sources into the public grid in the Indian states of Andhra Pradesh and Himachal Pradesh.

The model "EcoCasa" programme co-financed by KfW on behalf of the Federal Government and the European Commission for energy-efficient residential construction in Mexico won the revered Ashden Award for innovative climate financing in 2015. This was the second international award for the project designed to build 37,000 eco houses and 600 passive houses for low-income households. Some 12,000 such houses had been completed by the end of 2015. These use at least one fifth less energy than traditional builds and have set standards for the industry. Other partners in Latin America are currently assessing whether they could feasibly transfer the programme to their countries.

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moting the construction and labour-intensive rehabilitation of power and water lines, sports facilities and public roads. This supports both Syrian refugees and the communities taking them in.

On behalf of the BMZ, KfW also supports **countries plagued by natural disasters**. For instance, it supported the reconstruction of destroyed infrastructure following the devastating earthquake in Nepal with special grants of EUR 25 million committed for this very purpose.

#### **Tailor-made financing**

KfW adapts its financing instruments to varied conditions, offering its partners tailor-made solutions. Only in this manner can projects and programmes develop the maximum impact.

The type of financing instrument used depends on the amount of debt, economic strength, the country's development status, project partner efficiency and also the type of project. The financing instruments comprise pure grants, loans from budget funds, KfW-funded loans with interest subsidised through federal grants (development loans), KfW-funded loans with terms close to the going market rate (promotional loans) and equity investments.

Grants from federal budget funds are primarily awarded to poor and weakly developed countries. These funds are not repaid. However, development policy criteria must be met, which include ownership and commitment from the partner country. Further developed countries may also receive grants for projects that contribute directly to combating poverty or preserving global public goods such as tropical rain forests.

However, more economically advanced countries usually receive loans – particularly development and promotional loans – that are closer to capital market terms. The partner countries in these cases benefit from KfW's favourable funding opportunities (due to its AAA rating), in some cases interest rates subsidised by federal budget funds and from partial risk assumption by the Federal Government.

#### **Debt conversion, cancellation and restructuring**

KfW is mandated to support the responsible federal ministries in the Paris Club and the bilateral implementation of debt restructuring, cancellation and conversion. Debts were cancelled on the basis of existing debt conversion agreements with partner countries Egypt, Bosnia and Indonesia in 2015. These countries had used their own funds in their local currencies for additional development policy measures, as agreed, and therefore had debt cancelled by the German Federal Government in the total amount of EUR 37 million.

#### **On behalf of the Federal Government ...**

The German Federal Government invested almost EUR 2.2 billion of its budget funds in development projects worldwide via KfW in 2015. The BMZ is the primary ministry on whose behalf these projects are promoted. KfW also operates on behalf of other federal ministries, such as the Federal Foreign Office, the Federal Ministry for Economic Affairs and Energy ("BMWi"), the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety ("BMUB") and the Federal Ministry of Education and Research ("BMBF").

#### **... and Europe**

After the ministries of the German Federal Government, the EU is the most important public partner and client of KfW Development Bank. The focus remains on cooperation in connection with EU blending, which is a combination of EU grants and loans from development banks aimed at enabling larger investment projects and more efficient use of public EU development funds. Blending enables provision of long-term low-interest financing for important infrastructure projects in developing and emerging market countries. EU development policy continues to be characterised by a strong focus on EU-neighbour regions, LDCs and mobilising private equity. The issue of refugees also gained immense importance in 2015.

#### **Reliable development partnership**

Responsibility for the programmes financed by KfW always lies with an institution in a partner country – these are usually ministries, authorities or other

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governmental agencies. However, KfW also works with NGOs, private foundations and UN organisations. The joint projects proposed by partner countries in negotiations with the Federal Government must meet the development policy criteria of the Federal Government and of the partner country. KfW evaluates projects on behalf of the Federal Government to determine whether they have developmental benefits. If all criteria are met, KfW experts offer project partners their know-how and years of development experience for the duration of the project. They ensure that both tenders and awards comply with internationally recognised regulations. If, despite careful planning and preparation, difficulties arise during the course of the project, KfW seeks solutions together with its partners. Continuous dialogue is important, particularly in difficult times. It enables knowledge transfer and also supports the project partner in establishing additional capacities and skills.

### Representative offices in 66 countries

KfW Development Bank has offices in 66 countries, in addition to the Frankfurt, Berlin and Brussels locations. By having continuous local representation, KfW is better positioned to structure cooperation with its partners and other donors, and to closely monitor the promoted projects. KfW opened new representative offices in Togo (Lomé), Moldova (Chişinău) and Vietnam (Ho Chi Minh City) in 2015.

### Focal areas of promotion and the effects

- KfW is one of the world's largest finance providers in the area of climate and environmental protection. EUR 3.9 billion (almost 60% of all new commitments by business area KfW Development Bank) went to projects relating to the climate or environment. Of these funds, 63% served to reduce greenhouse gas emissions, and 29% was for adaptation to climate change. Greenhouse gas emissions in partner countries are expected to be reduced by a total of 11.6 million tonnes of CO<sub>2</sub> through the projects funded in 2015.
- KfW used a large portion of promotional funds (around EUR 3.5 billion) to finance **economic infrastructure** last year,

particularly in **renewable energy**. The energy projects to which EUR 1.8 billion was committed in 2015 gave at least 2.5 million more people first-time access to modern energy supply. This is an important contribution towards the Federal Government's target of ensuring that a total of 100 million more people have access to renewable energy by 2030. Promoting the **financial sector**, which has traditionally been a high priority for KfW, is a further focal point. New commitments of EUR 1.1 billion to banks, funds and microfinance institutions have enabled some two million loans with a total volume of EUR 7 billion to be granted primarily to small enterprises.

- Around EUR 1.6 billion was committed for social infrastructure projects in 2015. On behalf of the Federal Government, KfW is helping partner countries to build schools and healthcare facilities, for example. A total of around 3.4 million people, mainly children and young people, are benefiting from the EUR 352 million committed to **education projects** last year. EUR 150 million was committed alone to education projects improving the situation for refugees in and around Syria in 2015. The healthcare projects promoted in 2015 (EUR 309 million in total) will reach some 122 million people in the areas of reproductive health and healthcare infrastructure. Around 35% of the commitments for 2015 were aimed at direct improvement of the health of mothers and children. The **water, sanitation and waste management** sector is also given high priority. KfW committed a volume of EUR 675 million to new projects alone in this area last year in order to improve the living conditions of 10.8 million people.
- In the **peace and security** area, commitments totalling more than EUR 645 million were made in 2015, financing 39 projects offering direct support to refugees and partner country towns and villages that take them in.
- Overall, the commitments made in 2015 represent a contribution to the creation and safeguarding of nearly 1.7 million **permanent jobs**.

A total of around 3.4 million people, mainly children and young people, are benefiting from the EUR 352 million committed to education projects last year.

The water, sanitation and waste management sector is also a high priority. The new projects receiving promotional funds in 2015 in the amount of EUR 675 million will improve living conditions for 10.8 million people.

The projects financed via KfW are proposed by partner countries in negotiations with the Federal Government and must meet the development policy criteria of the Federal Government and of the partner country.

### Results assessment ...

KfW projects are not forgotten after they have been concluded, thanks to KfW's independent evaluation department headed by Eva Terberger, Professor at the University of Mannheim. A number of years after completion of the project phase the department determines whether the agreed goals were met for the long term, and assesses the results. KfW publishes all results of this assessment in order to learn from them itself, and to share the experience with other development policy institutions. The success rate is high: around 80% of projects financed by KfW are rated as successful.

### ... and transparency

Transparency and accountability to KfW's partner countries and worldwide cooperation partners as well as the German public are essential for effective international collaboration. KfW's transparency portal on development finance therefore includes detailed information on projects in developing and emerging market countries, in particular on the source and use of funds, broken down by region and sector. The latest business figures for 2015 are provided here: [www.kfw.de/transparency](http://www.kfw.de/transparency).

# DEG – creating added value for development

**DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH funds entrepreneurial initiatives in developing and emerging market countries to create sustainable growth and better living conditions for their people. To this end, it provides private companies with long-term financings and advises them in planning and implementing their investment projects.**

Employment and income are essential prerequisites for overcoming poverty and providing people with prospects for the future. Entrepreneurial initiative is the most important driver in achieving this aim, as most jobs are created in the private sector. For this reason, DEG finances economically and developmentally sustainable investment projects by private companies, through loans and guarantees as well as equity investments and quasi-equity loans. It directs its offering particularly at small and medium-sized enterprises (SMEs).

As a promotional institution with a development policy mandate, DEG operates on the principle of subsidiarity. It provides funding to companies where it is not offered by the market or not to a sufficient degree. As a pioneer investor, DEG consciously enters future markets at an early stage, promoting expansion of the private sector even under difficult circumstances – as a driver of development.

There was also demand for DEG's advice to and professionalisation of companies in areas such as corporate governance, environmental and social management and resource efficiency.

DEG thinks and acts in an entrepreneurial manner. This includes generating risk-appropriate returns to increase equity. These returns constitute a material basis for DEG promotion and its expansion.

Sound knowledge of the economic, social, ecological and political conditions in the investment countries, proximity to customers and permanent local presence are essential to effectively fulfilling the promotional mandate. To ensure this, DEG maintains 13 local offices in Africa, Asia, Latin America and Eastern Europe. It also shares use of KfW's more than 70 foreign representative offices.

DEG endeavours to be as transparent as possible about its working methods, and uses various types of communication for this purpose. For example, it has been publishing information on new commitments on its website since the beginning of 2015. And DEG set up a joint complaint mechanism with Dutch development finance provider FMO back in 2014, which allows individuals and organisations who consider themselves compromised by co-financed projects to submit a complaint. These are then assessed and processed by an independent panel of international experts. Information is also provided about this on DEG's website.

## **Client-focused DEG**

DEG continuously develops its product range, structures and processes, in order to identify and exploit potential for improvement. It launched the "Client-focused DEG" initiative in 2014 as part of its annual strategy review.

Further development of the organisational structure and HR management, and necessary adjustments to processes, organisational rules and IT systems were key areas of activity under the initiative in 2015. Measures included an updated management model.

The "Client-focused DEG" initiative was implemented successfully in 2015.

Financing committed by DEG in 2015 enabled corporate investments in the amount of EUR 5.7 billion.

### Focus on promotional quality

Growth in developing and emerging market countries was lower year-on-year in 2015, at around 4%. Investment capital for businesses frequently remained unavailable again in these countries. This provided scope for DEG to fulfil its development mandate, offering larger financing volumes in cooperation with other European and international development financiers.

DEG agreed new financing in the amount of EUR 1.1 billion in 2015 for 75 investment projects, with the focus on high promotional quality. This all happened against the backdrop of difficult developments in some key target markets and measures to increase risk-bearing capacity given that portfolio growth has been boosted by the appreciation of the US dollar. SMEs with their particular relevance for development were one focal point, accounting for 60% of new commitments, and Africa and other future markets another, with 53%.

The financing committed in 2015 enabled entrepreneurial investments with a total volume of EUR 5.7 billion. DEG's portfolio rose to around EUR 8 billion distributed among 738 commitments in 81 partner countries.

### Demand for DEG services from SMEs

EUR 632 million was committed to SMEs in 2015. EUR 566 million was earmarked for Africa and other future markets, of which EUR 284 million went to sub-Saharan Africa.

New commitments for risk capital financing – equity investments and quasi-equity loans – amounted to a total of EUR 379 million in 2015.

EUR 327 million of new commitments in 2015 was earmarked for projects that promote climate and environmental protection as well as adaptation to climate change.

DEG's financing and promotional programmes reached more than 110 German businesses in 2015. It provided those companies with financing in the amount of EUR 138 million for their projects in developing and emerging market countries, and a further EUR 26 million via

promotional programmes. The regional focus of German business was Africa, with new commitments of around EUR 60 million.

Finance was provided to 33 countries last year. Broken down by continent, the largest portion went to Asia once again (EUR 374 million). At EUR 310 million, commitments to Latin America were up by some 14% on 2014. Of the EUR 284 million committed to Africa, EUR 235 million went to the sub-Saharan region.

KfW committed funding of EUR 75 million in total to Europe and the Caucasus. The year-on-year decline here was primarily due to the effects of the Ukraine conflict. EUR 21 million was granted to supranational projects.

Broken down by industry, the financial sector received the largest share of commitments again in 2015, at EUR 413 million. In providing financial means for banks, funds and specialist financiers, DEG is pursuing the aim of improving local financing opportunities for small and medium-sized enterprises above all.

Investments in the manufacturing industry were boosted with around 7% more commitments from DEG in 2015 (EUR 294 million). EUR 255 million was provided for infrastructure projects, with the vast majority going to investments in renewable energy. The commitment volume for the agricultural and food industry totalled EUR 78 million, for the service sector EUR 25 million.

### Promotional programmes and consulting

DEG offers German and European enterprises a variety of promotional programmes for measures with developmental benefits. These combine public financings and company funds. A total of some EUR 30 million from public funds was available in 2015. New commitments were made to 170 projects.

DEG's accompanying measures to the Business Support Services (BSS) advice programme were further developed in 2015. The programme offers tailor-made solutions to DEG customers, for example to improve a company's financial viability and performance, reduce risk and increase

DEG supported over 110 German businesses through financing and promotional programmes in 2015.

developmental effectiveness. The BSS advisory services are an integral part of DEG's product range. Commitments were made to 73 accompanying measures in 2015.

The second phase of the programme to secure the income of African cotton farmers, the Competitive African Cotton Initiative Phase II (COMPACI II), has been underway since 2013. DEG and Deutsche Gesellschaft für Internationale Zusammenarbeit ("GIZ") were mandated by the Bill & Melinda Gates Foundation and the Federal Ministry for Economic Cooperation and Development ("BMZ") to implement it. The initiative is expected to benefit around 650,000 small-scale farmers in twelve African countries.

The promotional programme Coffee Partnership for Tanzania (CPT) is also being implemented on behalf of the Bill & Melinda Gates Foundation. It is aimed at 90,000 coffee farmers. German companies are materially involved in executing both programmes.

### **Binding international environmental and social standards**

DEG's commitments must be both environmentally and socially sound. Certain business activities do not qualify for DEG financing from the outset; they are defined in a published exclusion list.

All companies receiving support from DEG in 2015 were obliged to contractually comply not only with national requirements but also with international environmental and social standards.

These include the environmental, social and human rights Performance Standards of the International Finance Corporation (IFC-PS) as revised in 2012 in collaboration with DEG, and the core labour standards of the International Labour Organization (ILO). By agreeing environmental and social action plans, DEG was once again able to help improve the situation for co-financed companies in projects with potentially higher environmental and social risks in 2015. DEG supports the businesses closely for the duration of the project, and ensures that action plans are implemented. Solutions to any issues are worked out together.

DEG also conducts its own operations in an environmentally responsible manner. It focuses in particular on the efficient use of resources. All carbon emissions resulting from building operations and business trips are neutralised through the purchase and retirement of emission certificates, in line with KfW's climate neutral status.

### **Development quality reaffirmed**

DEG regularly rates the development quality and effectiveness of its projects with its corporate policy project rating tool ("GPR"). An average rating of 2.1 resulted from the assessment of 2015 new business, maintaining the high development quality of the previous year.

The evaluation of the DEG portfolio performed every two years shows, among other things, that businesses co-financed by DEG employ almost a million people. Tax payments of an annual EUR 1.5 billion mean they also contribute to public revenues. In addition, they help to improve the energy supply by producing an annual eight terawatt hours (TWh) of power from renewable sources for around nine million people.

In addition, around half of the companies co-financed by DEG also assume comprehensive corporate social responsibility. They pay above-average wages, offer pension and health insurance benefits, and operate healthcare facilities, kindergartens and schools.

### **Networks increase customer benefit**

DEG values international networks. DEG also cooperates closely with the members of the European Development Finance Institutions (EDFI), an association of development finance providers for the private sector, which it helped to set up. This cooperation enables DEG to increase its presence on the markets, offer its customers more financing and share risks.

DEG and twelve other EDFI members have been promoting private investments in the African, Caribbean and Pacific Group of States (ACP) along with European Financing Partners (EFP) – the European Investment Bank's (EIB) co-financing instrument – since 2003. Eleven EDFI members, the EIB and Agence Française de Développement (AFD) are partners in the Interact Climate Change

Business Support Services (BSS) is a comprehensive advice programme for companies.

The development quality of new commitments remained high in 2015.

Facility (ICCF) to finance private-sector projects with a positive impact on the climate. Two projects were financed through EFP funds in 2015, and five through ICCF funds. The two facilities have promoted private investments in the total amount of around EUR 1.5 billion to date.

Moreover, the EDFI partners and the European Commission together founded the Electrification Financing Initiative (ElectriFI) in 2015, which supports investments in rural electrification.

DEG also regularly cooperates with other EDFI partners, multilateral development banks, in particular the IFC and the EBRD (European Bank for Reconstruction and Development), as well as regional financing institutions.

#### **Another good result in 2015**

DEG generated a healthy result in financial year 2015 under what were at times challenging conditions. Profit for the year after increased risk provisioning and before taxes amounted to EUR 101 million. Net retained earnings for 2015 were around EUR 87 million.

#### **Approach tailored for different markets and customers**

At a global growth rate of an estimated 2.9%, slightly stronger global economic performance is expected in 2016. This is partly due to the positive development anticipated in the industrialised countries, and partly to the fact that output in key emerging markets is not expected to decline as strongly, and in regions such as Africa is likely to show considerable growth. Overall, therefore, the mixed economic growth around the world of the past few years is set to continue.

Accordingly, DEG is focussing on intensive market observation and close customer support. DEG assumes reduced investment activity in the private sector of advanced emerging markets ("BRICS") in future, which may lead to lesser demand for DEG services. DEG offers primarily equity and mezzanine products in these countries, along with advisory services.

DEG will continue to target emerging and frontier market countries capable of tapping international capital markets (Beyond BRICS), as many businesses in these countries are expanding both regionally and sectorally. DEG can offer its entire finance and advice range and generate major development effects in relation to employment and infrastructure, for example.

DEG is assuming a key function as pioneer investor that mobilises additional capital in Africa and other future markets. It is therefore in demand there, particularly as an advisor on introducing international standards.

The predicted development underscores DEG's complex business environment. It plans to further expand its promotional business in 2016, particularly in terms of quality.

Long-term achievement of its development policy mandate and future-oriented, risk-adequate portfolio management will remain key management factors for DEG in the future.

## »» Capital markets

We ensure the long-term funding of our promotional business and the liquidity of the entire KfW Group via the global money and capital markets. As a promotional bank with many years of experience and an established capital market strategy, we focus on continuity, professionalism and diversification. Sustainability plays an increasingly important role.

# Professional player in international capital markets

**KfW Group bundles its long and short-term funding activities and its liquidity, currency, interest rate and asset management for the entire group in the business sector Capital markets. KfW funds its business activities almost fully on the international money and capital markets; and is one of the world's most active and largest bond issuers. The business sector contributes to KfW's promotional business through investment in commercial securitisation transactions for capital market-oriented promotion of SMEs and through financing climate and environmental protection projects via the purchase of green bonds. In addition, the sector is responsible for holding arrangements in the privatisation of Deutsche Telekom and Deutsche Post.**

## KfW Group's Capital markets business sector

KfW raises resources on the capital markets in the high double digit billion euro range every year to fund its promotional business. It raises billions more via the money markets, i.e. with maturities of less than one year, which serve to ensure KfW Group's liquidity. The annual share of KfW Group's funding from the money and capital markets is around 99%.

In addition to raising funds, the Capital markets business sector is responsible for managing interest rate and currency risks, which are largely hedged through the use of derivatives. KfW is exposed to very few currency risks in its business, interest rate risks are tolerated to a limited extent, and monitored and managed at all times. Funds raised that are not initially needed for KfW's promotional business are temporarily invested for liquidity management purposes.

KfW invests in securities firstly to ensure liquidity, and secondly, because the purchase of high quality securitisations of SMEs is part of the promotional business via capital market-based products.

The business sector Capital markets is active in the growing market for green bonds, where the proceeds are used to fund environmentally beneficial activities, on both the funding and lending side of the bank. "Green Bonds – Made by KfW" offer KfW's investors all over the world KfW bonds that are directly connected with its promotional work in climate and environmental protection. As an investor, KfW promotes other green bond issuers' projects and measures with the green bond portfolio it created in 2015.

## 2015 capital market developments

2015 was a year of major international political and economic challenges, resulting in extraordinary market developments.

The European Central Bank (ECB) interest-rate policy and expectations regarding the future course of US Federal Reserve policy affected capital markets and generated high volatility. The ECB's bond-buying programme announced in January 2015 influenced yields on outstanding German government and KfW bonds. This created uncertainty among investors and market participants, which was further exacerbated by other political and economic events such as negotiations on additional bailout measures for Greece, concern about global growth and turmoil on China's stock markets.

With its broad offering of bond products, KfW also successfully concluded long-term funding and met investors' demand in various currencies despite the volatile market and low-interest rate environment.

## The path of money – from money and capital markets to the ultimate borrower





# Excellent capital market reputation

KfW is a valued business partner on the capital market. KfW securities are in high demand among institutional investors. KfW's reputation is based on its responsible behaviour and on the Federal Republic of Germany's explicit and direct guarantee, which is reflected in high credit quality and forms the basis of an excellent financial rating. Excellent sustainability ratings result from KfW's positioning as one of the leading sustainable promotional banks and highlight the credibility of its "Responsible Banking" motto.

## First-class credit rating

The Federal Republic of Germany has been explicitly liable for the bonds issued by KfW since 1998 in accordance with Article 1a of the KfW Law. KfW's credit rating is thus primarily based on the creditworthiness of the Federal Republic of Germany and reflects its rating awarded by rating agencies. KfW's credit quality is rated by the international rating agencies Moody's Investors Service, Scope Ratings and Standard & Poor's. KfW solicited European rating agency Scope Ratings for a financial rating for the first time in financial year 2015. All the agencies gave KfW their highest possible ratings with a stable outlook as of 31 December 2015.

## KfW's ratings

As of 31 Dec. 2015	Moody's Investors Service	Scope Ratings	Standard & Poor's
Short-term rating	P-1	S-1+	A-1+
Long-term rating	Aaa	AAA	AAA
Outlook	Stable	Stable	Stable

Fitch Ratings also gave KfW its best ratings as of 31 December 2015 (AAA, F1+, outlook stable), since 1 January 2016 ratings have been on an unsolicited basis.

## Top-notch sustainability ratings for KfW

The issue of sustainability is becoming increasingly important to investors and issuers alike. KfW pursues a holistic approach in the Capital markets business sector; as an investor, it manages its liquidity portfolio with a sustainable approach, in addition, KfW bonds offer an attractive investment opportunity for sustainability-oriented investors. This has been confirmed by external, independent sustainability rating agencies for several years now. KfW regularly achieves top ratings compared with international competitors in the sector; the basis for the ratings are environmental, social and governance factors.

As of 31 December 2015, KfW was rated as follows by the independent sustainability rating agencies:

- **oekom research:** KfW received the "prime" rating among financial institutions with the highest ratings; for sustainability, KfW earned a B- rating (on a scale of A+ to D-).
- **Sustainalytics:** KfW was given 83 out of a maximum of 100 possible points, thus ranking it fifth out of 422 banks worldwide.
- **imug:** KfW ranked second overall out of 122 national and international issuers of bank bonds.

## Award-winning capital market presence

KfW received many awards from the international specialist press in financial year 2015; for example it was declared the World's Safest Bank for the seventh time in a row by Global Finance magazine and given the title of Best Green Bond Issuer and Best Debt Investor Relations by the information portal cmd.



# KfW bonds offer top credit quality and product diversity

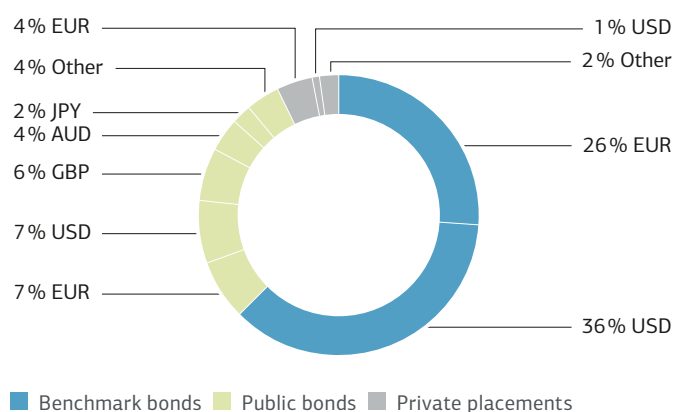
**KfW regularly issues bonds to fund its promotional business in Germany and abroad. Few other promotional banks in the world use the global capital markets as intensively as KfW. KfW's flexible and proven funding approach enables it to secure funding at any time and to achieve the most favourable possible funding conditions to meet its promotional mandate. KfW has access to various instruments and currencies for this objective, which are used flexibly in line with market conditions and investor demand.**

KfW raised a total volume of EUR 62.6 billion in 14 different currencies and 175 individual transactions in financial year 2015. This result means funding is slightly above the planned range of EUR 55 billion to EUR 60 billion, due to strong demand for KfW promotional loans and, as a result, a great need for funding. KfW expects to see a funding volume of between EUR 70 billion and EUR 75 billion in 2016. The tried-and-tested capital market strategy is to be continued so that KfW can respond flexibly and as effectively as possible to potential challenges as a result of the market environment, as it did in 2015.

## Good capital market access through benchmark bonds denominated in euros and US dollars

KfW's funding strategy is based on a three-pillar model comprising benchmark bonds, public transactions and private placements. This positioning means a wide variety of investor groups can be targeted.

### KfW bonds issued in 2015, total: EUR 62.6 billion



Differences in the totals are due to rounding.

The first pillar comprises high-volume, highly liquid benchmark bonds denominated in euros and US dollars, which are offered worldwide in the global format. It is traditionally KfW's most important funding pillar in terms of volume. The share of the 2015 funding volume that benchmark programmes comprised was higher than the previous year at 62% (2014: 57%). Ten benchmark bonds were offered in total. Investors were able to subscribe throughout the year for euro-denominated benchmark bonds in all major maturities, from ten years at the beginning of the year, through seven and five-year terms to a short-term bond with a three-year maturity. Investors were in fact offered six KfW benchmark bonds with durations of three, five and ten years for US-dollar-denominated securities.

The choice of suitable issue dates and a systematic focus on market demand were key contributing factors in the successful placement and stable secondary market development of the bonds issued. In the low interest rate environment, coupons from the euro benchmark bonds in particular were even lower than in the previous year. Particularly noteworthy is the issue of a benchmark bond in October 2015, which for the first time had a negative yield at issue.

### EUR Benchmark Programme 2015

	EUR in billions	Maturity	Interest rate in % p.a.
KfW EUR Benchmark I/2015	3.0	10 years	0.625
KfW EUR Benchmark II/2015	3.5	7 years	0.625
KfW EUR Benchmark III/2015	5.0	5 years	0.125
KfW EUR Benchmark IV/2015	5.0	3 years	0.000

### USD Programme 2015

	EUR in billions	Maturity	Interest rate in % p.a.
KfW USD Benchmark I/2015	3.0	3 years	1.000
KfW USD Benchmark II/2015	5.0	5 years	1.500
KfW USD Benchmark III/2015	3.0	10 years	2.000
KfW USD Benchmark IV/2015	4.0	5 years	1.875
KfW USD Benchmark V/2015	6.0	3 years	1.125
KfW USD Benchmark VI/2015	4.0	3 years	1.125

Institutional investors from Europe and in particular Germany dominated in euro benchmark bond investments, while the bulk of investors in USD benchmark bonds came from Asia, America and Europe. Around half of KfW benchmark bonds in US dollars were subscribed by central banks; for benchmark bonds in euros, banks were the largest investor group, with around 50% of the securities subscribed.

The second pillar of KfW's funding strategy comprises all public transactions outside the benchmark programmes. These include lower-volume bonds in the core currencies euro and US dollar, but also securities issues in other important currencies such as the pound sterling, the Australian dollar and the Canadian dollar. At 31% in 2015, the share of these public KfW bonds in the total funding volume was below the figure for the previous year (2014: 39%); 97 securities were issued in total.

The third pillar of KfW's funding comprises privately placed KfW securities. These are tailored to the individual requirements of institutional investors in terms of currency, structure and maturity. KfW was active with these products in many markets in 67 individual transactions in 2015. In total, the share of private placements in the overall funding volume rose from 4% in 2014 to 7%.

### Major significance of the variety of currencies in KfW's funding strategy

KfW can currently issue bonds in 25 different currencies and thus provides a well-diversified offering for different investor

requirements. At 63% in 2015, the share of the total volume of funding in foreign currencies was significantly higher year-on-year (2014: 55%). In total, bonds were issued in 14 different currencies (2014: 13). The euro and the US dollar remained overall the two most important currencies in the funding mix, although for the first time, bonds denominated in US dollars comprised a greater share of total funding (45%) than those denominated in euros (37%). Particularly in the first half of 2015, KfW's funding strategy enabled it to respond flexibly to demand from institutional investors for KfW bonds in the US dollar market, where it could offer a higher yield than in the euro market. Nevertheless, KfW also succeeded in issuing liquid bonds in its domestic currency by acting on the interest of international investors at the right time. In addition to the two main currencies, euros and US dollars, bonds were primarily in demand in Australian dollars, mainly in what is known as the "kangaroo market", and in pounds sterling and Japanese yen. KfW has been a regular, established issuer with a solid market position in these markets for many years. These three currencies together constituted around 13% of the funding and are traditionally an important source of funding for the promotional bank. The offering also included other currencies such as Turkish lira, Brazilian real and New Zealand dollars. Other currencies together amounted to 5% of the total funding volume.

### Funding in 2015/2014 by currency

	2015		2014	
	EUR in billions	%	EUR in billions	%
USD	28.0	45	21.7	38
EUR	23.4	37	25.8	45
GBP	4.6	7	3.0	5
AUD	2.5	4	3.1	5
JPY	1.2	2	1.5	3
Other currencies	3.0	5	2.4	4
<i>American currencies (BRL, CAD)</i>	1.3	2	1.2	2
<i>Oceanic currencies (NZD)</i>	0.8	1	0.5	< 1
<i>European currencies (SEK, NOK, TRY)</i>	0.5	< 1	0.5	< 1
<i>Asian currencies (CNY, INR)</i>	0.4	< 1	0.1	< 1
<i>African currencies (ZAR)</i>	0.01	< 1	0.1	< 1
<b>Total</b>	<b>62.6</b>	<b>100</b>	<b>57.4</b>	<b>100</b>

Differences in the totals are due to rounding.

# Green bond range expanded and first “Kauri bond”

After KfW successfully placed “Green Bonds – made by KfW” in both euros and US dollars on the capital market for the first time in 2014, each with a record volume, the product range was expanded in financial year 2015 through the introduction of new currencies. KfW also expanded its product range with its first bonds in the New Zealand Kauri market, and is tapping another investor group.

## “Green Bonds – made by KfW” contribute to climate and environmental protection

Sustainability is a key component of KfW’s self-image. As a bank committed to responsibility, it is already one of the world’s largest financiers of climate protection. KfW’s Green Bonds directly link its promotional business to capital market funding.

“Green Bonds – made by KfW” enable bond buyers to link their investments to a measurable climate protection effect thanks to the direct link of funds raised with KfW’s “Renewable Energy – Standard” programme. A EUR 1 million investment in Green Bonds (made by KfW) is estimated to be able to save around 800 tonnes of CO<sub>2</sub> equivalent per year. Due to the high standards of transparency and impact measurement, KfW’s Green Bonds are in high demand from both long-term and traditionally oriented investors.

KfW issued green bonds with a value of EUR 3.7 billion last year. In addition to euros and US dollars, new currencies – the Australian dollar and the pound sterling – were introduced for publicly placed green bonds, which gave new impetus to the market. A private placement was also placed in Swedish kronor.

KfW’s regular green bond reporting includes the use of funds in the KfW “Renewable Energy” programme and provides information on the volume and use of the of the funds drawn and the regions where they were used. KfW was able to refinance proceeds in the amount of 88% of funds drawn from the “Renewable Energy – Standard” programme by issuing green bonds in 2015. The current report is available on KfW’s website via the following link: <https://www.kfw.de/KfW-Group/Investor-Relations/KfW-Green-Bonds/KfW-Green-Bonds-Reporting>.

KfW will also support the market segment in 2016 and, depending on the market situation and investor demand, will issue green bonds in new currencies and with additional maturities. In addition, KfW plans to introduce the following innovation to the green bond market: when selecting commercial banks in the mandating process for green bond issues, the sustainability rating of the banks will be considered. This should create an incentive for market participants to also be mindful of positioning themselves sustainably.

## Green Bond issues in 2015

	Volume	Maturity	Interest rate in % p.a.
KfW AUD Green Bond	AUD 0.6 billion	5 years	2.400
KfW EUR Green Bond	EUR 1.5 billion	5 years	0.125
KfW GBP Green Bond	GBP 0.5 billion	5 years	1.625
KfW SEK Green Bond	SEK 1.0 billion	5 years	0.586
KfW USD Green Bond	USD 1.0 billion	5 years	1.875

## “Kauri bonds” expand investor base for KfW

KfW was present on the local market in New Zealand for the first time in financial year 2015 through the issue of its first “Kauri bond”. The bond has a maturity of five years and investors subscribed a volume of NZD 650 million. “Kauri bonds” are bonds issued by foreign issuers on the New Zealand market. Like kangaroo bonds in Australia, the name is simply for marketing purposes, intended to be characteristic of the country in question. “Kauri” is derived from the kauri tree, which is native to New Zealand. Incidentally, the Bank of New Zealand, which was involved in the issue of the KfW bond, plants 100 kauri trees for every “Kauri bond” issued through it. The KfW “Kauri bond” thus contributes to the preservation of the kauri forests in New Zealand. As a result of the local format selected, it was possible to specifically address New Zealand investors. KfW aims to issue more “Kauri bonds” in future and in so doing gradually expand the range to include different maturities.

# Ensuring liquidity

**KfW holds financial assets for group-wide management of liquidity through a liquidity portfolio, for which it invests in fixed income securities. When selecting investments for the liquidity portfolio, KfW considers the issuers' sustainability assessment based on environmental, social and governance (ESG) criteria in addition to their credit rating. Moreover, KfW is one of the world's most active players in the money market, particularly through its commercial paper programmes, which serve short-term borrowing and are important for liquidity management.**

## Sustainability in the liquidity portfolio

The liquidity portfolio serves the aim of keeping KfW in a position to act even when it has no access to the capital market. To this end, KfW invests exclusively in securities with good (i. e. investment grade) credit quality. In addition, bond issuers' compliance with sustainability standards, measured on the basis of the ESG criteria, is also taken into account in the investment decision. Particularly sustainable issuers are favoured. The sustainability assessment is based on external sustainability ratings. KfW regularly communicates the results of its sustainability assessment to the issuers to keep them up to date with the status and progress of their sustainability commitment. Furthermore, non-governmental issuers are subject to exclusion criteria based on the World Bank Group debarment list. The liquidity portfolio volume totalled EUR 24.4 billion at the end of 2015 (2014: EUR 23.8 billion).

## KfW is an active member of the UN's Principles for Responsible Investment (PRI) initiative

As one of the first signatories to the United Nations "Principles for Responsible Investments" (PRI) and faced with issues such as dwindling resources and climate change, KfW is committed to the further development of sustainable investment. In addition to managing its own liquidity portfolio as a responsible investor, KfW has engaged in dialogue with issuers on the issue of responsibility on the capital market for many years. In 2015, it received the Institutional Investor Germany Award for the "Best ESG Programme" for its liquidity portfolio's sustainable investment approach.

## Short-term funding – commercial paper for liquidity management

KfW's business activities developed very encouragingly in the money market segment again in 2015. The demand for safe and short-term investments in KfW commercial paper (CP) remained high and led to more intensive use of this funding instrument.

KfW uses its commercial paper issues, which are important components of KfW Group's liquidity management, to raise short-term funds for a term of up to twelve months.

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 held its ground among the world's largest commercial paper issuers for years with its two commercial paper programmes, the Multicurrency Commercial Paper Programme (ECP programme) and the US Commercial Paper Programme (USCP programme). KfW issued a total of 1,211 securities in the two CP programmes together in 2015 (2014: 1,311).

The programme volume of the ECP programme designed for investors around the world was increased from EUR 40 billion to EUR 50 billion in May 2015. The programme is KfW's most important source of short-term funding. Commercial paper was issued under it in twelve different currencies last year, of which the most important were the US dollar, the British pound and the Australian dollar. The issue volume in the ECP programme was, as planned, considerably higher year-on-year in 2015. The outstanding volume amounted to EUR 31.8 billion at the end of 2015 (year-end 2014: EUR 25.2 billion).

The USCP programme, with a programme volume of USD 10 billion, is specially designed for the US market. KfW uses this programme to cover a large portion of its need for short-term funds in US dollars. The issue volume in this programme was also considerably higher than in the previous year. The outstanding volume amounted to USD 8.1 billion at the end of 2015 (year-end 2014: USD 7.6 billion).



# Promotional business in the capital markets segment

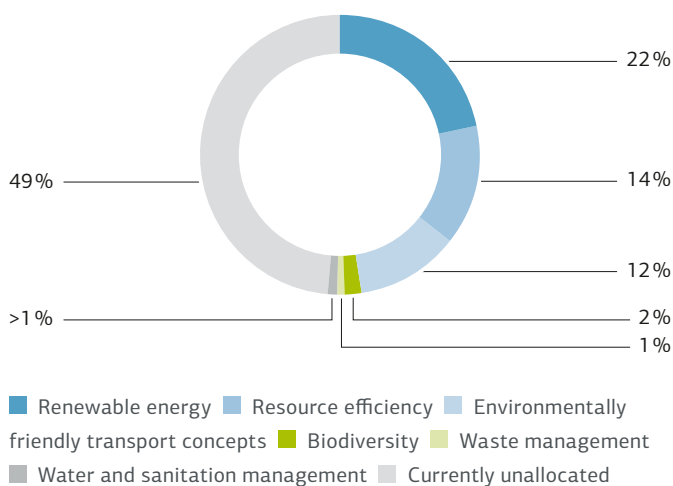
**KfW invests in green bonds on the capital market, thereby financing measures for climate and environmental protection. By using qualitative minimum standards for the green securities to be purchased, maintaining dialogue with market participants and participating in initiatives to create standards for green bonds, it also helps to further develop the still young, but growing market segment. Furthermore, KfW promotes financing of commercial enterprises via the capital market. In this capital market-based financing, KfW invests primarily in high-quality securitisations of receivables from SMEs.**

## **Financing climate and environmental projects using green bonds**

KfW created a green bond portfolio in 2015, and in so doing added a capital market instrument to its loan financing for climate and environmental protection measures through the purchase of green bonds. The Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety has given KfW a promotional mandate to do this. The portfolio is to be expanded to a total volume of EUR 1 billion over the next few years. KfW purchased green bonds amounting to around EUR 280 million over the course of last year. An investment volume of EUR 300 million is planned for 2016.

KfW can invest worldwide in green bonds issued by governments, supranational and semi-governmental institutions, banks and companies, as well as in green covered bonds and asset-backed securities (ABS). With the investments it has made, KfW has promoted measures in promotional fields such as renewable energy, resource efficiency, environmentally friendly transport and water and sanitation management. Upon issue, issuers often announce investment opportunities in different areas; the ultimate allocation of the funds to individual measures does not take place until after the green bonds have been issued. The issuers report on the measures financed at a later date, and generally commit to reporting on an annual basis. For this reason, no information can be provided on the promotional field allocation of around half of the volume invested by KfW in 2015.

**KfW green bond portfolio**  
in 2015, total: EUR 280 million



Differences in the totals are due to rounding.

As a green bond investor, KfW also aims – in addition to its activities as a green bond issuer – to contribute to the further development of the green bond market and the establishment of qualitative standards in this segment. The increasing sensitisation to climate and environmental protection has caused the green bond market to develop dynamically in the past few years. It has the potential to grow into an important source of funding for climate and environmental protection measures. Qualitative minimum standards and sufficient transparency are important for the future of this still young market segment. KfW ensures compliance with internal minimum requirements regarding the transparency and quality of the securities when making its investment decisions. In addition, it helps to develop guidelines, through initiatives, such as for issuing green bonds and for standardised reporting on the environmental benefit of projects and measures financed. Because of the use of funds specifically for green projects, KfW considers this capital market instrument also ideal for initiating or intensifying strategic dialogue on climate and environmental protection with market participants in order to mobilise as many of them as possible for this issue. The dialogue on green bonds additionally enables access to the larger issue of sustainability in the capital market which is increasing in importance.

**Promotion of SMEs in Germany and Europe via the capital market**

The securitisation market stabilised at the prior-year level in 2015. As in the previous year, in addition to the ECB's asset-backed securities (ABS) purchase programme, the discussion about the future regulatory treatment of securitisations continued to shape market events. The focus was on shaping a future segment for particularly high quality simple, transparent and standardised (STS) securitisations. As part of the initiative to create a European Capital Markets Union, the STS regulation impressively underlines the importance now attributed to securitisations in broad areas of politics and at central banks as part of the funding of the real economy – and in particular SMEs.

KfW provided SME funding via investments in securitisations of EUR 838 million in 2015 (2014: EUR 1.2 billion). The funding of European SMEs was supported for the first time with a volume of around EUR 190 million. In addition to promotional activities, the focus in the past financial year in the area of capital market-oriented SME funding was on strengthening cooperation with other European promotional institutions. KfW leads a working group together with the European Investment Fund (EIF), comprising other European National Promotional Banks (NPBs). This working group started the EIF-NPB Securitisation Initiative (ENSI), in which processes and minimum criteria were developed for future joint participation of European promotional institutions in securitisation transactions. By participating in an Italian leasing securitisation, the Italian promotional bank Cassa Depositi e Prestiti (CDP), EIF and KfW were able to complete a first transaction as part of this collaboration at the end of 2015.

New issue activity in the European securitisation market is expected to remain at the level of the previous year in 2016. KfW will continue its promotion of capital market-based SME financing in Germany and Europe. It hopes to be able to give impetus to a revival of the European securitisation market for small and medium-sized enterprises, in particular through strengthened cooperation with other European promotional banks as part of ENSI.

# Special capital market-related tasks commissioned by the Federal Government

## **KfW has assumed an important function in the privatisation of Deutsche Telekom and Deutsche Post.**

As part of the privatisation of Deutsche Telekom AG and Deutsche Post AG, and the special transactions mandated by the Federal Government, KfW has been buying shares from the Federal Government, and selling some of them in various capital market transactions, in several stages from 1997 onwards. KfW and the Federal Government have agreed that the privatisation of Deutsche Telekom and Deutsche Post will be continued for the long term. Where the market situation is deemed appropriate, KfW will be exploiting suitable capital market windows for further privatisation measures in close consultation with the Federal Government.

Shareholders in Deutsche Telekom AG were again allowed to choose in 2015 to have the dividend for the past financial year paid out in cash or as shares. After delivery of new shares from the exercise of subscription rights based on its dividend claims, KfW received around 803.9 million shares in Deutsche Telekom AG at the end of 2015. This corresponded to around 17.5% of the share capital of Deutsche Telekom AG as of 31 December 2015.

KfW's holding in Deutsche Post AG during the course of 2015 remained unchanged at 253.9 million shares. This corresponded to 20.9% of the share capital of Deutsche Post AG as of 31 December 2015.



»» The men and women on our staff  
In fulfilling our promotional mandate  
and achieving business success,  
there is one aspect that is particularly  
important to us: being a responsible  
and attractive employer. After all,  
only a strong workforce can provide  
the key competitive advantage for  
future success.

# KfW as an attractive employer

**For the men and women on our staff, financial year 2015 was once again characterised by an intensive volume of business and the implementation of the modernisation projects that had already been initiated, the emphasis being on boosting efficiency and customer orientation. Since the modernisation measures reflect our responsibility for KfW's future, KfW, in its role as an employer, was keen to demonstrate its very responsible attitude towards, and the high value it places on, its employees.**

As a result, KfW also forged ahead in 2015 with moves to transform its culture and make it fit for the future. The key aspects of this new culture are reflected in our Gender Balance Concept and were therefore also incorporated into the new KfW Equal Opportunities Plan.

## **Personnel**

As of the end of 2015, KfW Group employed a total of 5,966 people (previous year: 5,727) at KfW, DEG and KfW IPEX-Bank, 4,763 of whom worked at the KfW parent company (previous year: 4,541).

The proportion of KfW employees not covered by collective agreements remained constant at around two-thirds. At the end of the year, 24.8% of employees worked part-time, a further increase on the previous year (24.2%).

Women at managerial level totalled 29.4% at the end of 2015. The proportion of employees with severe disabilities came to 5.36%. The average age of employees was 42.8, only slightly higher than in recent years. The staff turnover rate – after adjustments for retirement – of 1.4% remained very low (previous year: 1.0%).

## **Implementation of the HR strategy**

Already in 2014, KfW's HR department had readjusted its strategic focus to reflect KfW's corporate strategy and mission statement, defining key HR policy areas of activity for the period from 2015 to 2018. In the reporting year, KfW's HR management kept a constant focus on the HR strategy. As the following reports show, a number of key and interim objectives have already been met:

## **Employer branding/HR marketing**

KfW is working continuously on its image as an employer. In 2015, for example, it successfully completed a project to develop an employer brand that will form the new face of its entire external communications in the years to come. KfW's recruitment methods were completely revised in the reporting year. All guidelines and questionnaires were updated on the basis of the latest research results and the roll-out of the new recruitment methods was successfully completed in 2015.

KfW also laid the foundation stone for a new, modern image on the technical side of things: moves to implement a new applicant management system were initiated in 2015 and will be completed in the first quarter of 2016.

We are particularly encouraged by the fact that KfW was assigned the highest ranking in the “Young Professionals” target group as part of a major employer ranking in 2015, bucking the overall trend in the financial services sector by further improving in the “Graduates” category. This is testimony to the growing public awareness of KfW’s appeal as an employer.

### **New job descriptions, grading and allocation of functions**

As part of numerous modernisation measures, new structures and processes were put in place at KfW. This also meant that new job descriptions had to be drawn up for all functions. Thanks to systematically generic description and grading across the whole of KfW, this allowed the number of functions to be reduced from some 700 to around 250. The descriptions were also regraded in their entirety in financial year 2015. Together with the employee representative bodies, a consistent overall system of collective wage-agreed and non-collective wage-agreed functions was created, with functions being graded based on objective criteria. A cross-comparison was used to create the greatest possible degree of transparency on the new functions (functional profile map) for managers in all areas.

In tandem with these activities, negotiations were conducted with the employee representative body on the introduction of new, permanent provisions for job descriptions and the grading and allocation of functions. A staff agreement was concluded in December 2015 which will provide a reliable basis for the years to come. The new system has resulted first and foremost in the simplification of the former grading system, while at the same time ensuring greater transparency, and in the establishment of generic job descriptions that are linked to other HR tools (strategic personnel planning, recruitment, individual personnel development, etc.).

The new structure boosts process efficiency and makes decisions transparent and easy to understand. This allows KfW to fulfil key aspects of its mission statement.

### **Implementation of the mission statement**

Based on its new mission statement, which was adopted in 2014, KfW is developing its culture of management and teamwork with the aim of achieving sustainable change. KfW’s HR work covered issues such as leadership, gender balance and work-life balance in the reporting year to forge ahead with this cultural development in connection with the new Equal Opportunities

Plan, health management, working hours and inclusion. All of these issues are linked as part of a holistic concept.

### **New Equal Opportunities Plan**

KfW adopted its new Equal Opportunities Plan in December 2015. It came into force on 1 January 2016 and will apply to the period from 2016 to 2019.

A commitment to ensuring equal opportunities for men and women has been a key component of KfW’s personnel policy for some time now, and is closely linked to the Gender Balance Concept. As a result, this fourth Equal Opportunities Plan also focuses on external benchmarking at a high level. The objectives and measures agreed in close dialogue with the equal opportunities officers are based on successful initiatives and also provide new impetus in line with the German Federal Equal Opportunities Act (*Bundesgleichstellungsgesetz – “BglG”*), which was amended in 2015.

Four key objectives based, among other things, on the outcome of the Gender Balance events of 2013/2014, were set:

- The proportion of women in managerial and upper-level professional positions is to increase further by 2019.

In order to achieve this, KfW has defined targets for female participation, which vary depending on the managerial level in question (directors 17%, heads of department 26% and team leaders 35%).

Over the past few years, KfW has already managed to boost the proportion of women in managerial positions from 26.8% (2011) to 29.4% (2015). Progress at team leader level, in particular, is also to lay the foundation for future success in filling director and department head positions in the future.

- KfW is not focusing on formal gender equality alone. It is aiming to truly put equal opportunities into practice in order to make active use of the different skills and personalities of men and women and to reap the benefits this sort of diversity offers.

This remains the aim of the Gender Balance programme, which links the organisational framework and personnel development with targeted shaping of the corporate culture. Striving for diversity and exploiting full potential while ensuring that employees enjoy a good work-life balance are also key components of KfW’s mission statement.

The fact that KfW has been able to inspire managers to act as promoters of the equal opportunities objectives and transparent

communication across the board will help to establish a culture in which awareness of equal opportunities is part of day-to-day work at all levels.

- The ability to strike a healthy balance between work and home life, a main prerequisite for continued professional development, and traditionally important to women, is also gaining relevance for men, with provision of long-term care to relatives an increasing key consideration. This is why KfW is expanding the range of options available to suit the needs of employees looking to combine work with long-term care responsibilities, while promoting cultural sensitivity as far as this issue is concerned. In line with the amended BGlG, male employees, in particular, are to be motivated to make use of work-life balance models. KfW already has a whole range of childcare models on offer, as well as tried-and-tested HR tools offering leaves of absence and various part-time working models, also for managers.

As far back as in 2001, KfW was certified as one of the first family-friendly companies in Germany by the Hertie Foundation. The implementation status of the objectives and measures agreed was reviewed again in 2015 as part of the interim report, revealing very good results.

- Our employees' professional careers and lives outside of work are increasingly characterised by phases such as time out to look after family or pursue further education, a return to work, stays abroad and project assignments. Individual needs vary depending on the age and life situations of the employees in question.

This is why we need a culture and an infrastructure that focus on people and enable comprehensive life phase orientation if we want to successfully attract, develop and retain qualified employees and managers. Based on an extensive analysis, we will be developing and implementing a concept for a life phase-oriented personnel policy covering all phases of an individual's career from recruitment until the point at which they leave KfW. In particular, we will be using the results of workshops held as part of the Gender Balance programme to assess existing development opportunities, such as job rotation, project management careers or part-time management.

The systematic implementation of the Equal Opportunities Plan in the period from 2016 to 2019 is one of KfW's main personnel policy objectives.

### **New staff agreement on working hours**

KfW also expects the entry into force of its new staff agreement on working hours, which was concluded in 2015, to make a key contribution to modernising its corporate culture. The agreement will initially apply for a pilot phase of three years and aims to raise awareness of working hours-related issues among managers and employees alike, as well as to achieve a systematic move from a culture that is based on how many hours someone spends in the office to one that focuses on the results that an individual achieves. The stated objective of the agreement is to

give employees more self-responsibility and to allow more flexible arrangements in terms of working hours and place of work, while taking KfW's needs into account at the same time. This is consistent with the objectives of the operational health management initiative and the programmes to reconcile career and family life.

During the agreed pilot phase, those KfW employees who are not covered by collective agreements will enjoy "autonomous working hours", designed as a test that could lead to the introduction of "trust-based working hours" later on. This means that managers will not be able to access the time entries – which remain mandatory for own documentation purposes – of their employees who are not covered by collective agreements.

In order to reflect KfW's responsibility for the health of all of its employees and in the interests of ensuring work-life balance, the staff agreement explicitly states that regular meetings and "jour fixe" sessions are to be held, where possible, during service hours and taking into consideration part-time employees' working hours. As a general rule, employees will only be expected to be available on working days and during service hours.

The success of the autonomous working hours pilot phase requires managers and employees alike to rethink their attitudes. The project provides KfW with an opportunity to move towards a modern culture of management and teamwork.

### **Health management**

In order to live up to the responsibility it has towards its employees, KfW has been systematically expanding its operational health management initiative since 2014. It aims to maintain and promote employee motivation, job satisfaction and performance, even in a working world in which KfW employees, just like employees of other companies, are coming under greater pressure due to increasing workload, higher momentum and complexity and, in some cases, also due to standardisation.

Two focal points were determined, in particular, in 2015:

1. In order to analyse psychological stress, a screening procedure developed by the University of Potsdam was introduced. So far, in around one-third of areas at KfW, observation interviews have been used to analyse the jobs of a representative sample of employees, recording and evaluating possible stress factors associated with their positions. Most of the positions analysed to date have been classed as non-critical as far as psychological stress is concerned. If individual cases revealed the likelihood of relevant stress, changes were made to the work organisation in a timely fashion in order to reduce these stress factors. The aim is to have analysed all areas within KfW by the end of 2016.
2. Due to the way in which managers shape the overall framework, they have a special responsibility for promoting a health-conscious culture of management and teamwork at KfW. The seminar entitled "Healthy management in practice" (*Praxis Gesundes Führen*) was designed in order to help team

leaders, in particular, to consider health aspects in their daily management work. The idea is to give team leaders specific suggestions on how to incorporate health-related issues into their day-to-day management work and set an example to their employees in the process.

The “check-up examination” tool was extended to cover team leaders, to provide these employees themselves with support. The tool allows individuals to undergo a physical check-up to measure their endurance and also includes an optional assessment of their personal risk of occupational burnout. A consultation session held after the check-up provides individuals with advice on how to change their lifestyle based on the results of the examination.

### **New inclusion agreement**

KfW has employed and supported people with severe disabilities for many years now. The Executive Board reinforced this commitment by signing an inclusion agreement in November 2015, agreeing goals for continued work with the representatives for employees with severe disabilities and the General Staff Council. In the interests of inclusion, the aim is to create an environment in which people with severe disabilities are just as natural a part of the KfW community and processes as all other employees are. A corporate culture based on greater awareness is to also be used to support diversity in the process.

Specifically, the main aim of the inclusion agreement is to make a greater effort in creating new, long-term employment for severely disabled individuals and to support their professional development at KfW through targeted advancement and by balancing out the disadvantages resulting from disability.

### **Modern personnel development**

When qualitative, organic growth was the norm at KfW, it appeared sufficient to use classic personnel development tools (e.g. training sessions) to develop employees’ professional and personal skills. Since then, the demands placed on personnel support and development at KfW have changed significantly. This is particularly evident if we look at the constant changes in the framework and objectives of KfW’s owners, and in the increasing level of regulation, which is having a huge impact on organisational and professional requirements. What is more, at a modern bank like KfW, the increasingly project-based approach to work is resulting in increasing complexity in everyday working life. This means that new forms of work and career paths have to be considered. New personnel policy signals and adjustments to personnel tools are becoming necessary because social trends, such as increasing digitalisation, demographic change and, in some cases, the shift in terms of looking for employees who are specialists as opposed to “all-rounders”, are calling tried-and-tested structures into question.

In order to ensure the efficiency of its employees and management system in the future, personnel development at KfW is currently focusing on four areas for action: gradual and early adjustments to professional skills, the development of contemporary management tools, identifying and promoting talent

and strengthening the project management culture as the “third force” alongside specialism and management.

Ongoing benchmarking in all key areas of action in the fields of personnel and management development produced the following personnel development project focal points in 2015:

1. Modernisation of the tools used to assess management potential based on the new management skills model which was developed in 2014.
2. Revamp of the management feedback (360° feedback) system to promote a feedback culture and improvement in management and teamwork.
3. Introduction of a project management career path as an attractive alternative to the classic managerial career. This project is based on an Executive Board assignment from 2014.

### **(1) New procedure for assessing potential**

After nine years, the old system for assessing management potential was revised in 2015. With the broad involvement of managers, employees and the various employee representative bodies, a state-of-the-art procedure was developed in a methodical fashion. The concept incorporated the results of market comparisons with 18 other organisations, as well as the latest scientific findings from the field of potential diagnostics. The new procedure is based on the management skills model which was developed in 2014 and is split into three phases: the first phase, “preparation”, allows individuals to reflect on their own skills in detail. The second phase, “selection”, consists of an interview and an assessment and results in a differentiated evaluation of an individual’s potential. The third phase, “further development”, involves intensive preparation for the individual’s first managerial position, either in a line function or within a project.

### **(2) KfW management feedback**

The management feedback system developed specifically for KfW (360° feedback) is based – just like the procedure for assessing potential – on the new management skills model. For the very first time, it allows feedback to be provided with the help of online systems and, as a result, in a highly efficient manner. Managers invite individuals from their daily working environment to provide anonymous feedback on their management behaviour. Managers then use a team workshop to compare how others see them with how they see themselves, allowing them to discover new areas of development for themselves.

The new follow-up process provides managers and their teams with long-term development support.

### **(3) Introduction of a project management career path**

Numerous large-scale and specialist department projects are currently underway at KfW and are part of day-to-day working life for many employees. Specific project expertise, however, is a must when it comes to managing these highly complex project organisations. In order to establish and further strengthen this project management knowledge and the required skills at KfW,

a dedicated project management career path has been established. The career path can be described as equivalent to the conventional managerial career path in all respects (selection criteria, salary, special benefits, etc.). The project management training offering has been expanded considerably. These in-house skills will give KfW a large degree of independence from external service providers.

KfW employees who want to develop further have been able to embark on this new career path since January 2016.

#### **KfW's appeal as a traineeship provider**

Greater public awareness of KfW as a whole and target group-specific personnel marketing measures have resulted in a sharp increase in the number of up-and-coming young talents applying to join us. This has allowed us to meet the considerably increased internal demand for university degree-holders to join our graduate trainee programmes.

The sandwich degree programmes have been expanded to include a BA in Supply Engineering and Environmental Technology in light of the medium-term succession planning within the Central Services area.

#### **Promoting young talent**

As of the end of 2015, 134 young people were undergoing their first vocational training course (previous year: 132), of whom 71 were sandwich degree students (previous year: 76). The number of graduate trainees stood at 60 as of 31 December 2015 (previous year: 34). In the course of the year 122 students completed internships at KfW (previous year: 104). The total number of interns, sandwich students, and vocational and graduate trainees was 231 as of 31 December 2015 (previous year: 196). This equated to a training rate of 4.8% (compared to 4.3% in 2014).

#### **Thank you**

KfW's employees continued to deal with a high business and promotional volume in 2015. Many of them also worked on the modernisation and corporate culture projects, contributing considerable additional effort.

We would like to thank all members of staff, as well as the Staff Council members, the equal opportunities officer, and representatives for employees with severe disabilities, and for youth and vocational trainees for the good working relationship we enjoyed with them in 2015.

## »» Financial reporting

The earnings position in 2015 was characterised by a strong operating result combined with an excellent valuation result due to positive one-time effects.

# Financial reporting

The complete consolidated financial statements including the group management report are contained 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 of 15 March 2016.

## Basic information on KfW Group

KfW Group consists of KfW and six consolidated subsidiaries. As the promotional bank of the Federal Republic of Germany – which owns 80% of KfW while the German Federal States own 20% – KfW is one of the world's leading promotional banks. In addition to KfW, the group's main operating subsidiaries are (i) KfW IPEX-Bank, which provides project and export financing, and (ii) DEG, which is active in promoting the private sector in developing and emerging market countries.

KfW Group has a set of strategic objectives in place that define KfW's targeted medium-term positioning. The primary objective of all KfW's market areas is promotion – the heart of KfW's business activities – abiding by the principles of subsidiarity and sustainability. KfW addresses the primary objective of promotion largely by focusing its promotional activities on the socially and economically important megatrends of “climate change and the environment”, “globalisation and technical progress”, and “demographic change”. The primary objective is complemented by a set of secondary objectives or strict ancillary conditions that reflect profitability and efficiency as well as risk-bearing capacity aspects.

KfW has a closely interlinked strategy and planning process. The results of the planning process are summarised in the business strategy adopted by the Executive Board as well as the risk strategy derived from it.

## General economic environment

The global economy lost momentum in 2015, although the picture was mixed across the different economic areas. The economy stabilised in the industrialised nations, driven by the USA, the euro zone and Japan. Development was less positive in other industrialised nations in 2015. Developing and emerging market countries recorded slower growth for the fifth consecutive year in 2015. Many large emerging markets in particular faced strong headwinds, some even entered recession.

Economic recovery gained some momentum in the member states of the European Economic and Monetary Union (EMU). Growth momentum therefore picked up slightly more than KfW had expected a year ago. The geopolitical conflicts were less problematic for the economy than anticipated, and financing



conditions improved considerably over the course of the year for business and private households.

The focus in the financial markets in 2015 was primarily on the diverging monetary policies of the world's major central banks. Whereas the Bank of Japan maintained its expansionary stance and the European Central Bank (ECB) shifted into an even more accommodative gear, rates were raised slightly in the USA for the first time since 2006. Growing concerns among market participants were fuelled not only by shifting assessments of monetary policy, but also in the early summer by developments in Greece and later in the year by muted growth in the emerging markets, particularly China, and the recent drop in crude oil prices. This led to temporary but considerable market turbulence in the late summer. The riskier asset classes bore the main brunt of this, while safe investments enjoyed consistent high demand. 2015 saw an unprecedented development with nominal yields sliding into negative terrain on some bond markets, including in Germany, well into medium-term maturities.

Given the persisting moderate macroeconomic growth rate and unusually low rate of inflation, the European Central Bank took further expansionary monetary policy measures in 2015. This environment caused money market rates to fall further in the euro zone, all of them landing in negative territory by the end of the year. Yields in the longer maturity segments saw greater volatility during the year. Yields on ten-year government bonds in 2015 were down an average of approximately 70 basis points year-on-year. Money market rates in the US rose significantly during the year, due not least to heightened expectations by year-end of a US rate hike, which were confirmed in December by the US Federal Reserve's first interest rate increase in nine years. Yields on ten-year US government bonds trended slightly upwards with heightened volatility during the year. The differing monetary policies of the US Federal Reserve and the ECB had a major impact on the USD/EUR exchange rate, with the euro depreciating considerably against the US dollar, to its low for the year of 1.05.

#### **Major financial developments for KfW Group**

The excellent earnings position in 2015 benefitted from a slight year-on-year increase in the operating result combined with a major improvement in the valuation result due to various non-

recurring effects. This resulted in a high consolidated profit of EUR 2.2 billion, far exceeding both the previous year's result and forecasts.

With this result, KfW is improving its capital base in order to safeguard its promotional capacity in the long term and to ensure it can meet the regulatory requirements which are higher as of the mandatory application of the German Banking Act from 1 January 2016.

Earnings in 2015 were largely characterised by the following developments:

#### **Strong operating result**

At EUR 2,066 million (2014: EUR 2,023 million), the Operating result before valuation (before promotional activity) was slightly above both the prior-year figure and expectations.

This was primarily the result of the positive development – despite the low interest environment – of Net interest income (before promotional activity), which benefitted greatly from the increasing margin income in foreign lending business, the US dollar exchange rate development and KfW's continued favourable funding opportunities.

The slight decline in Net commission income (before promotional activity) to EUR 286 million (2014: EUR 313 million) was largely due to the absence of the non-recurring effects that occurred in 2014 in connection with the renegotiation of collateral agreements.

Administrative expenses (before promotional activity) increased to EUR 1,125 million (2014: EUR 1,059 million), however, this was below expectations. The deciding factors here were both the extensive investments in modernising KfW and, in particular, measures connected to KfW's application of the KWG.

#### **Excellent valuation result due to positive non-recurring effects**

Charges arising from risk provisions for lending business totalled a very moderate EUR 48 million in 2015. This was well below the projected standard risk costs and also beneath the low level of the previous year (EUR 143 million). In addition to

the favourable economic environment, this positive development was also due to factors such as high income from recoveries of loans written off (EUR 281 million), which resulted primarily from exposures in Export and project finance.

Moreover, the purely IFRS-related effects from the valuation of derivatives used for hedging purposes served to greatly exaggerate the earnings position by EUR 271 million (2014: EUR 47 million). KfW also generated one-time earnings in the amount of EUR 119 million from the disposal of individual combinations of hedged items and hedging instruments.

A contribution to earnings of EUR 147 million (2014: EUR 122 million) from the equity investment portfolio largely resulted from the Promotion of developing and transition countries business sector. Performance in the DEG portfolio was enhanced by exchange rate effects relating to currencies including the US dollar.

The securities portfolio generated a lower contribution to earnings in 2015 of EUR 18 million (2014: EUR 57 million), which reflects the subdued development overall on the financial markets.

Other operating income from cancellation of the repayment of a part of the ERP subordinated loan amounted to EUR 100 million.

#### **Promotional activity lower than expected**

KfW's domestic promotional activity, which has a negative impact on KfW Group's earnings position, decreased to EUR 345 million in 2015 (2014: EUR 364 million), which was below expectations. This was a result of declining interest rate reductions of EUR 304 million (2014: EUR 345 million), particularly due to the lower demand for subsidised promotional loans and the decreased scope for reductions in the low interest rate environment.

#### **Development of net assets and financial position**

Consolidated total assets rose by EUR 13.9 billion to EUR 503 billion in 2015. This was largely due to the development of the US dollar exchange rate, which was reflected in the higher liquidity held (+EUR 7.9 billion) due to the increase of cash collateral received in the derivatives business as well as the EUR 3.8 billion rise in Net loans and advances to EUR 369.2 billion. Unscheduled repayments increased again slightly year-on-year.

The promotional business is primarily funded through the international capital markets. The volume of own issues reported under Certificated liabilities amounted to EUR 415.2 billion (year-end 2014: EUR 404 billion). The EUR 3.6 billion increase in equity to EUR 25.2 billion was due in part to consolidated comprehensive income and also in part to a conversion of subordinated liabilities to equity by inclusion in KfW's capital reserve in the amount of EUR 1.25 billion.

#### **Development of the risk situation**

Euro area bank performance in 2015 remained mixed. While the banking sectors in Ireland and Spain have continued to recover, driven by improved economic parameters and a stabilising real

estate sector, Italy's asset quality development remains negative (share of non-performing loan portfolio increasing). Among the peripheral countries, the Greek financial sector caused the greatest turmoil in 2015. As a result of the drawn-out agreement process between the new Greek government and its international creditors, Greek banks were forced to close for several weeks in the summer, following drastic deposit outflows, and capital controls were imposed on citizens. The Swiss National Bank's removal of the Swiss franc's cap against the euro at the beginning of 2015 brought about serious upheaval. The massive appreciation of the franc caused the value of CHF-denominated loans outside Switzerland to soar, raising borrower costs and creating higher credit risks for banks in some eastern European countries, in particular. One such consequence is Poland's plan to force conversion of foreign currency loans at the expense of the banks. This could result in considerable burdens on the banking sector in 2016, which could be exacerbated by any further measures announced. The above-mentioned deterioration in economic parameters in critical emerging market countries resulted in lower credit ratings for important banks in these countries, such as Brazil. Russia's economy and banking market are suffering immensely from the recession and the Western sanctions, which is reflected in increasing loan defaults and risk costs, decreasing profits and lending, and increased central bank refinancing.

Implementation of the bail-in rules as of 1 January 2016 represents one of the key reforms for European banks. This permanently changes the risk profile for bank bonds and will likely result in slight increases in funding rates. Rating agencies stopped including the probability of government bail-ins when rating the creditworthiness of various European banks in 2015. As the ECB will continue to pursue its expansionary monetary policy in 2016, consequently maintaining the low-interest rate environment with narrow margins, cost-cutting programmes at banks will continue to dominate. The focus is particularly on banks with less efficient cost-income ratios in Germany, France and Italy, which can also be seen in the European Banking Authority (EBA) results from the latest EU-wide transparency exercise at the end of 2015. Banks active in ailing banking markets will continue to focus on reducing bad debts as a means of decreasing loan portfolios' share of non-performing loans, particularly in Cyprus, Ireland, Italy, Greece and Portugal. Despite considerable improvement in European banks' capital adequacy, the new EBA/ECB stress test is expected to be a greater measure of each bank's resilience. The results are to be published in the third quarter. It is expected that the supervisory authorities will use the results as a basis for determining individual capital requirements. Thus regulatory pressure on banks' capitalisation will remain heavy. However, even if capital requirements continue to exist, the focus of European banks in 2016 will likely remain on generating tier 2 capital and other loss-bearing liabilities in order to meet future requirements for the leverage ratio, Total Loss-Absorbing Capacity (TLAC) and the minimum requirement for eligible liabilities (MREL). The effects on the banking markets of political changes in the peripheral countries as well as the tensions between Russia and Ukraine or Turkey are more difficult to calculate. The spotlight will remain on Austrian and

French banks due to their greater exposure in these regions. In China, where debts have risen considerably in recent years, above all in state companies in the construction, real estate, mining and utilities sectors, risk costs for banks' loan portfolios will likely continue to increase.

The German and European economies were characterised by stable sideways movement in 2015. The business sector continues to stagnate; the positive impetus is primarily stemming from private households. A modest improvement is expected for 2016. Companies continue to benefit from favourable terms due to good credit availability and lending structures that are gradually being eased. The effects of the scandal involving exhaust emissions manipulation on Volkswagen but also on the European automotive industry as a whole cannot yet be estimated.

KfW Group has been affected by the aforementioned developments due to its international promotional mandate. The KfW portfolio recorded stable performance overall. All recognisable risks are measured using conservative standards and are taken into account in KfW Group's new business management through systematic implementation of risk guidelines. The regularly performed calculations of risk-bearing capacity show that KfW Group can bear the risks assumed in the context of its mandate – even based on conservative stress scenarios.

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

As of 31 December 2015, KfW had sufficient economic risk-bearing capacity to satisfy a solvency level of 99.99%. Risk-bearing capacity at a solvency level of 99.99% for all scenarios is at an adequate level overall.

KfW Group's regulatory capital ratios improved significantly in comparison with 31 December 2014. As of year-end 2015, the total capital ratio taking into account consolidated comprehensive income was 18.4% (year-end 2014: 15.1%), and the tier 1 capital ratio was 18.3% (year-end 2014: 14.1%). The main drivers of the positive development were the healthy annual profit, which resulted in a considerable increase in available financial resources, and the dramatic reduction in the capital requirement for the separate line item as part of the transition from blanket coverage to risk-based modelling. The increase in the tier 1 capital ratio was greater than the total capital ratio due to the partial conversion of the ERP subordinated loan (tier 2 capital) to equity by inclusion in the capital reserve (tier 1 capital). A moderate increase in the capital requirement for counterparty risks as well as the credit valuation adjustment (CVA) charge had a slightly opposite effect on the capital ratios.

The figures stated are internal ratings-based approach (IRBA) values, which result from extensive application of the internal rating procedures described above. However, KfW is currently still undergoing the IRBA approval process, for which reason temporary ratios under the standardised approach for credit

risk (CRSA) are determined and reported to the supervisory authorities as of 1 January 2016.

2015 was a year of major international political and economic challenges for the funding environment, resulting in extraordinary market developments. The ECB interest-rate policy and expectations regarding the future course of US Federal Reserve policy affected capital markets and generated high volatility. The ECB's bond-buying programme announced in January 2015 distorted yields on outstanding German government and KfW bonds. This created uncertainty among investors and market participants, which was further exacerbated by other political and economic events such as negotiations on additional bailout measures for Greece, concern about global growth and turmoil on China's stock markets.

### Outlook

KfW expects global growth of 2.75% to 3.75% for 2016, which means that global economic momentum will likely be somewhat higher than in 2015.

Economic recovery is expected to continue in the industrialised countries in 2016, particularly in the largest economies, the USA, euro area and Japan. There is considerable variance in the rates of growth among the group of developing and emerging market countries. Major emerging market countries (Brazil, Russia, etc.) and commodity exporters remain in a very difficult phase. China's economic slowdown is expected to gradually continue, although a hard landing is unlikely.

The low interest-rate environment will remain for the duration of 2016 as well. The US Federal Reserve began its exit from its ultra-easy monetary policy by hiking interest rates for the first time in nine years. However, it will likely proceed very cautiously in further tightening of monetary reigns. The ECB will maintain its very expansionary monetary policy for quite some time yet.

The forecasts for KfW Group's tier 1 and total capital ratios prepared in the group's internal capital adequacy process show that they are likely to more than meet the expected legally required minimum levels in 2016. Stable overall developments are anticipated for the group's economic risk-bearing capacity (99.99% solvency level) in 2016. Potential changes in economic, political, legal and regulatory conditions may have a significant impact on capital ratios and economic risk-bearing capacity. There is thus considerable uncertainty regarding the forecast for 2016.

The planned new business volume of EUR 74.9 billion for 2016 is below the 2015 figure, which was influenced by non-recurring effects, particularly in the business sector Export and project finance (EUR 79.3 billion). While a decrease in promotional business volume is expected in the business sector Export and project finance due to the exceptional situation in 2015, the promotional business volume in the domestic business sector and in Promotion of developing and transition countries is expected to remain almost at the level of 2015. To implement KfW Group's strategic objectives, the plans for the group's business sectors contain measures with a strategic focus on promotional quality

and an orientation of business activities towards the key areas of “climate change and environment”, “globalisation and technical progress” and “demographic change”. The portion of new commitment volume dedicated to climate and environmental protection financing is planned to be 34%, thereby achieving the strategic objective requirement of approximately 35%. This also applies to the SME share of financing; the share of planned financing for small and medium-sized enterprises (SMEs) in domestic promotional business of 45% is expected to be at the target level set in the strategic objectives (approximately 45%).

The focus in KfW's domestic promotional business will remain on SME financing and on safeguarding the viability of companies. KfW's international business areas are staying on course for growth in the medium term in order to support the internationalisation of German companies as part of globalisation.

KfW anticipates a high funding volume over the next two years. KfW expects funding volume via the capital markets to range between EUR 70 billion and EUR 75 billion in 2016.

In the current group earnings projections for 2016, KfW expects Consolidated profit of slightly under EUR 1 billion (before IFRS effects from hedging) based on anticipated macroeconomic conditions. The expected result is thus at the lower end of the strategic objectives range. Contributions from Net interest income and Net commission income (in each case before promotional activity) are at a high level similar to that of previous

years; however, the negative effects due to the ongoing low interest environment are increasingly noticeable. Thus projected interest rate margins from the lending business of around the same level as in 2015 would be offset by declining results from interest rate and liquidity maturity transformation. The expected Administrative expenses for 2016 exceed the level of 2015. This increase is largely due to cost increases from modernisation, growth in the foreign business sectors and personnel cost increases associated with collective agreements. This also raises the expected cost-income ratio (CIR) before promotional activity compared with the previous year. The projected standard risk costs, which as a long-standing historical average are considerably higher for 2016 than the actual risk provisions for lending business in 2015, will have a negative effect on earnings. KfW expects its promotional activity to increase again in 2016.

The KfW business model is oriented towards the medium to long term; income from the lending business (interest rate margins and net commission income) in particular is very stable. Opportunities and risks for consolidated profit may arise above all for the treasury result from deviating market conditions in conjunction with KfW's positioning, as well as for the valuations from risk provisions that deviate from those planned as well as from temporary effects on results arising from the valuation of economically effective hedges (IFRS-related effects on results). The latter have no economic basis and therefore are not explicitly included in KfW's planning.

»» Corporate governance

# Report of the Board of Supervisory Directors



Sigmar Gabriel, Federal Minister for Economic Affairs and Energy

## Meetings of the Board of Supervisory Directors

The Board of Supervisory Directors and its committees constantly monitored the conduct of KfW's business activities and the management of its assets. 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 KfW Law and Bylaws. The Board of Supervisory Directors, the Presidial and Nomination Committee, and the Remuneration Committee each met three times in 2015 for this purpose; the Risk and Credit Committee seven times and the Audit Committee twice.

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

- KfW's 2014 annual and consolidated financial statements,
- the business activities and current developments in each of KfW's business sectors, including KfW IPEX-Bank GmbH and DEG,
- the group's net assets, earnings position and risk situation in general, particularly sensitive areas such as the ship portfolio, as well as any potential impacts of the appreciation of the US dollar and the decline in the oil price,
- the status of application of the KWG standards at KfW, as well as the discussions with the banking supervision authorities on implementation of the related requirements, particularly those on compliance with regulatory capital requirements,
- the current status of the major project portfolio, particularly concerning the progress in renewing the financial architecture (including the "SAPFin project"),
- the development of Administrative expense, with a particular view to the costs associated with implementing major projects and the application of the KWG,
- KfW's European commitment with the contribution to the EU Investment Plan, while continuing its proven cooperation with European promotional banks.
- the reorientation of coal-fired power plant financing in line with the Federal Government's more restrictive criteria,
- the measures and objectives of the new KfW equal opportunities plan applicable from 2016,
- KfW's risk, business and IT strategies for 2016.

In preparation for implementation of KWG requirements on large exposures and loans to managers as of 1 January 2016, the Board of Supervisory Directors approved the amendment to the procedural rules resolved by the Executive Board and adopted precautionary resolutions. The authority to adopt resolutions on loans to managers was transferred to the Risk and Credit Committee with effect from 1 January 2016.

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

- With regard to **domestic promotional business**, the Executive Board reported in detail on implementation of the planned reorientation of equity finance to close the venture capital gap in the area of follow-on financing, the commitment in environmental and climate protection, the effects of the low interest rate environment on promotional activity as well as on the emergency “refugee accommodation” programme, where KfW funded the creation of accommodation by providing interest-free loans to municipalities.
- With regard to the business sector **Promotion of developing and transition countries**, the Executive Board reported on key topics of Financial Cooperation, the significant increase in budget funds for development financing primarily utilised in the areas of crisis prevention and poverty reduction, KfW’s position as the world’s leading provider of bilateral development financing in the field of environmental and climate protection, its commitment in the refugee crisis, which includes the funding of supplies to refugees in camps as well as infrastructural investments in the Middle East and the Horn of Africa, as well as on DEG’s business results.
- As for KfW IPEX-Bank, i.e. the **Export and project finance** business sector, the focus was on its role as a reliable partner to the German economy in particular. The Executive Board also presented information on the business results of KfW IPEX-Bank.
- The Executive Board gave regular reports on capital market development and the funding status of KfW’s business activities. 2015 saw KfW’s Green Bond activities expanded and the investor base systematically increased through the offering of bonds in additional currencies, such as the first-time issue of a bond in New Zealand dollars.
- The Board of Supervisory Directors was also informed of KfW Group’s environmental and sustainability commitment.

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, the development of its promotional business, and Internal Auditing’s activity.

The Executive Board informed the Board of Supervisory Directors about the focus areas of the business strategy – particularly in the fields of climate change and the environment, globalisation, innovation and SMEs – including KfW’s activities in Europe. On the basis of the future development of regulatory capital requirements for KfW presented by the Executive Board, the Board of Supervisory Directors discussed how compliance with these requirements will be ensured in the next few years. The Board of Supervisory Directors approved the planning for 2016, and acknowledged the multi-year business strategy as well as the risk and IT strategies.

Each member of the Board of Supervisory Directors informs the Chairman of the Board of Supervisory Directors or the relevant committee about potential conflicts of interest before a resolution is made. Consequently, on some occasions during the reporting year, members of the Risk and Credit Committee abstained from voting or refrained from participating in resolutions.

Nine members of the Board of Supervisory Directors attended fewer than half of the board meetings in the reporting year. Two members attended fewer than half of the meetings of the Presidial and Nomination Committee. The same applies to the Remuneration Committee. Four members attended fewer than half of the meetings of the Risk and Credit Committee. One member of the Audit Committee attended fewer than half of the meetings.

KfW organised training events for the members of the Board of Supervisory Directors to gain and maintain expertise in accordance with the KWG, for the first time in 2015. A total of four training events and six individual training sessions were held.

#### Committees of the Board of Supervisory Directors

In exercising its responsibilities prescribed in the Bylaws, the **Presidial and Nomination Committee** discussed Executive Board matters. It was also informed of banking supervision status and about KfW Stiftung. The committee approved a donation to KfW Stiftung. It discussed the status of major projects with the Executive Board, and also approved a redistribution of Executive Board responsibilities. It conducted an evaluation of KfW bodies, offering relevant recommendations to the Board of Supervisory Directors.

The **Risk and Credit Committee** reviewed the commitments and equity investments that must be presented to it under the KfW Law and KfW Bylaws as well as the scope for funding required by KfW for its refinancing and the related swap transactions necessary for hedging, and was informed about the risk situation and the effectiveness of the risk management system. It also dealt with KfW’s exposure in certain countries such as Greece, the effects of the decline in the oil price and the appreciation of the US dollar as well as the risk profile of the business sector Export and project finance. The results of the first Bundesbank assessment, the talks with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “BaFin”) and the regulatory capital requirements on KfW were also reported and discussed in detail.

The **Audit Committee** addressed the accounting process, the quarterly reports, the reports by Internal Auditing and Compliance as well as the annual financial statements of KfW Group 2014.

It made corresponding recommendations to the Board of Supervisory Directors for the approval of the annual financial statements 2014. It was informed about the efficiency of the risk management system, the Internal Control System (ICS) and the internal audit system. In addition, it addressed auditor independence and certain focal points of the annual audit 2015 and discussed the initial results of the annual audit 2015 in detail. The Committee approved the audit plan of the Internal Auditing department for 2016. It was informed about the progress of the talks with the banking supervision authorities regarding application of KWG provisions at KfW, the Bundesbank's assessment, and major projects, particularly the renewal of the financial architecture. With regard to the development of costs and earnings, the development of administrative costs was discussed as well as planning of administrative expenses for the next few years.

The **Remuneration Committee** discussed remuneration issues and was informed about the remuneration system for KfW employees, among other matters.

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

### Changes on the boards

Dr Ulrich Schröder was reappointed to the KfW Executive Board ahead of schedule with effect from 1 January 2016, and reappointed as Chief Executive Officer. Dr Günther Bräunig was reappointed to the KfW Executive Board with effect from 1 October 2016. Dr Stefan Peiss joined the Executive Board with effect from 1 January 2016. Dr Edeltraud Leibrock stepped down from the KfW Executive Board upon expiration of her contract as of 30 September 2015. The Board of Supervisory Directors would like to thank Dr Leibrock for her committed service to KfW.

In accordance with Article 7 (1) no. 1 of the KfW Law, in my capacity as Federal Minister for Economic Affairs and Energy, I assumed the position of Chairman of the Board of Supervisory Directors for 2016 from my colleague Dr Wolfgang Schäuble, Federal Minister of Finance.

New members of the Board of Supervisory Directors in 2015 were Kerstin Andrae, Dr Matthias Kollatz-Ahnen and Eckhardt Rehberg. Norbert Barthle, Jens Bullerjahn, Prof. Dr Hans-Günter Henneke, Dr Matthias Kollatz-Ahnen and Erwin Sellering stepped

down from the Board of Supervisory Directors in 2015. The Board of Supervisory Directors would like to thank the members stepping down for their work.

Anton F. Börner, Frank Bsirske, Klaus-Peter Flosbach, Hubertus Heil, Holger Schwannecke and Dr Martin Wansleben stepped down with effect from 31 December 2015 and were reappointed according to schedule with effect from 1 January 2016. Dr Uwe Brandl, Christian Görke, Monika Heinold and Prof. Dr Georg Unland joined the Board of Supervisory Directors after the reporting period on 1 January 2016.

### Annual financial statements

KPMG AG, which was appointed auditor for the 2015 financial year, has audited the annual financial statements and the management report of KfW as well as the consolidated financial statements and the group management report of KfW Group, all of which were prepared as of 31 December 2015 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 April 2016, 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 KfW Law following a recommendation by the Audit Committee.

Frankfurt am Main, 27 April 2016

THE BOARD OF SUPERVISORY DIRECTORS



Chairman



# Corporate Governance Report

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 Law Concerning KfW (KfW Law). The Law sets out KfW’s main structural features. For example, KfW does not have a general shareholders’ meeting. The shareholders are represented on the Board of Supervisory Directors of KfW and exercise control and shareholder functions (e. g. approval of the financial statements and adopting resolutions concerning the KfW Bylaws). The number of members, composition and duties of the Board of Supervisory Directors are set out in the KfW Law. The KfW Law also provides that the Board of Supervisory Directors is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy as well as direct control of the Federal Audit Office (*Bundesrechnungshof*). The KfW Law in conjunction with the Regulation concerning key banking supervision standards under the German Banking Act (*Gesetz über das Kreditwesen – “KWG”*) to be declared applicable by analogy to KfW and supervision of compliance to these standards to be assigned to the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht – “BaFin”*) (KfW Regulation), dated 20 September 2013, further stipulates that KfW is subject to supervision by BaFin in collaboration with the Bundesbank.

## **Declaration of Compliance**

The Executive Board and Board of Supervisory Directors of KfW hereby declare: “Since the last Declaration of Compliance issued on 14 April 2015, the recommendations of the PCGK, 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 excess

KfW has taken out D&O insurance for members of the Executive Board and the Board of Supervisory Directors, which – in derogation of clause 3.3.2 of the PCGK – only contain the option of including a policy excess. Exercise of the option is decided on in consultation with the Chairman of the Board of Supervisory Directors and his deputy.

### Delegation to committees

The KfW Law sets out the size of the Board of Supervisory Directors at 37 members. To ease the work of the Board of Supervisory Directors, committees more specialised in the subject matter and flexible in terms of time are in place, whose composition is prescribed by law. 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 PCGK – make final decisions. This is done for reasons of practicality and efficiency.

- The **Presidial and Nomination Committee** takes final decisions in the following cases: It adopts measures dealing with important legal and administrative matters and can make urgent decisions in pressing matters. It also draws up job descriptions with candidate profiles for Executive Board positions and for appointments to the Board of Supervisory Directors. It grants approval for the distribution of responsibilities within the Executive Board and significant changes thereto, resolves the compensation system for the Executive Board, with the decision on the basic structure of the compensation system nonetheless remaining the responsibility of the Board of Supervisory Directors. In derogation of clause 4.4.3 of the PCGK, the Chairman of the Presidial and Nomination Committee also accepts information on Executive Board member conflicts of interest, in lieu of the Board of Supervisory Directors. The Chairman of the Presidial and Nomination 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 PCGK.
- The **Risk and Credit Committee** takes final decisions on all financing requiring approval pursuant to the KfW Bylaws as well as on funding through the issue of bonds or taking out loans in foreign currencies and via swap transactions. It is standard procedure at banks for the final decision in such matters to be taken by a committee. It serves to accelerate and bundle committee expertise.

### Loans to board members

Pursuant to its bylaws, KfW may not grant individual loans to members of the Executive Board or Board of Supervisory Directors. For equal treatment reasons, this does not apply – in derogation of clause 3.4 of the PCGK – 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, however, be informed of programme loans granted to members of the Executive Board and Board of Supervisory Directors.

### Cooperation between 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 serious issues 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, the KfW Regulation, the KfW Bylaws and the procedural rules for the Executive Board. A schedule of responsibilities stipulates business responsibilities within the Executive Board. As of 1 August 2014, the Executive Board requires prior approval of the Presidial and Nomination Committee regarding significant changes to responsibility within the Executive Board.

In the reporting year, the Executive Board resolved a temporary redistribution of responsibilities within the Executive Board until 31 December 2015, due to Dr Edeltraud Leibrock's resignation as Executive Board member effective 30 September 2015. KfW Executive Board member department responsibilities were thus as follows in the reporting year:

- Dr Ulrich Schröder – Chief Executive Officer, Management Affairs and Communication, Group Development and Economics, Internal Auditing, Compliance and also Sustainability under Environmental Issues; Dr Schröder was also temporarily responsible for Portfolio Credit Service from 1 October 2015 until 31 December 2015;
- Dr Günther Bräunig – Capital Markets, Human Resources, Legal Affairs and Central Services;
- Dr Norbert Kloppenburg – International Finance (Promotion of developing and transition countries, business sector Export and project finance), including KfW Development Bank, DEG, and KfW IPEX-Bank;
- Dr Edeltraud Leibrock (until 30 September 2015) – Organisation and Consulting, Transaction Management and Portfolio Credit Service;
- Bernd Loewen – Risk Management and Controlling, including Restructuring, Accounting, Information Technology and since 1 October 2015 also Organisation and Consulting; from 1 October until 31 December 2015, Mr Loewen also held temporary responsibility for Transaction Management;
- Dr Ingrid Hengster – Domestic Finance including Mittelstandsbank/Management, Kommunal- und Privatkundenbank/Kreditinstitute, New Business Credit Service, Sales and since 1 August 2015 also Competence Centre KfW Digital.

On 16 December 2015, the Presidial and Nomination Committee resolved a redistribution of responsibilities with effect from 1 January 2016, implementing the requirements set out in the regulation on Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – “MaRisk”*), which apply as of 1 January 2016 and stipulate separating Executive Board responsibility for Risk Management and Controlling from that for Accounting. For this reason, Dr Stefan Peiss was appointed to the KfW Executive Board as Chief Risk Officer with effect from 1 January 2016. In addition to his future responsibility for Risk Management and Controlling, Dr Peiss will also assume responsibility for Transaction Management and Portfolio Credit Service from 1 January 2016.

Executive Board members are obliged to act in the best interests of KfW, may not consider personal interests in their decisions, and are subject to a comprehensive non-competition clause during their employment with KfW. Executive Board members must inform their Board colleagues of any conflicts of interests prior to adopting resolutions and disclose them to the Chairman of the Presidial and Nomination Committee without delay.

### 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. In addition, the German Bundestag and Bundesrat appoint seven members each. The remaining members of the Board of Supervisory Directors are appointed by the Federal Government after consultation with stakeholder groups. The Federal Minister of Finance and the Federal Minister for Economic Affairs and Energy 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 three female members on 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 members which are based on a substantial and more than temporary conflict of interests. Each member of the Board of Supervisory Directors informs the Chairman of the Board of Supervisory Directors or the relevant committee about conflicts of interest before a resolution is made. There were occasions during the reporting year, members of the Board of Supervisory Directors and its committees refrained from participating in resolutions due to conflicts of interest.

Nine 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 created four committees in accordance with Section 25d KWG in order to increase

efficiency in performance of its duties. The committees are listed below.

The **Presidial and Nomination 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 Presidial and Nomination Committee is also responsible for handling nominations. Moreover, it draws up job descriptions with candidate profiles for Executive Board positions and for appointments to the Board of Supervisory Directors. It identifies candidates to fill positions on the Executive Board and thus ensures with the Executive Board that long-term succession planning is in place for it. It can support the government bodies which make the appointments in selecting the individuals to be appointed to the Board of Supervisory Directors.

The **Remuneration Committee** deals with remuneration matters. It deals in particular with the appropriate structure of the compensation system for the KfW Executive Board and employees and advises the Presidial and Nomination Committee on remuneration of the Executive Board members.

The **Risk and Credit Committee** is responsible for advising the Board of Supervisory Directors on risk issues, such as, in particular, the group's overall risk tolerance and strategy. The Risk and Credit Committee is also in charge of handling credit matters and the approval of KfW's fundraising and swap transactions.

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 risk management system, auditing the annual and consolidated financial statements, the required independence of the auditor, determining the focus areas of the audit, and monitoring the prompt elimination by the Executive Board of any deficiencies found by the auditor.

The chairs of the committees report to the Board of Supervisory Directors on a regular basis.

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 KfW's website.

### Shareholders

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

### Supervision

In accordance with Article 12 of the KfW Law, KfW is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy.

The supervising authority has the power to take all measures necessary to ensure that KfW operates its business activities in accordance with the law, the KfW Bylaws and other rules and regulations.

KfW is not considered a credit institution within the meaning of Section 2 (1) no. 2 KWG and is thus generally exempt from the direct application of banking supervision regulations with the exception of a few individual provisions. It has nonetheless thus far largely analogously applied the relevant norms of the KWG, particularly MaRisk and the German Solvency Regulation (*Solvabilitätsverordnung* – “SolVV”).

However, the KfW Regulation dated 20 September 2013 declares central banking supervision regulations henceforth applicable by analogy to KfW, and subjects KfW to supervision by the German Federal Financial Supervisory Authority (BaFin) in collaboration with the Bundesbank regarding KfW’s compliance with these regulations. The KfW Regulation is gradually being phased into effect by 1 January 2016. BaFin has been entitled since 9 October 2013 to conduct regulatory inspections in collaboration with the Bundesbank. Sections 25c and 25d KWG with their corporate governance requirements became applicable to KfW effective 1 July 2014. The remaining regulations stipulated in the KfW Regulation will become applicable on 1 January 2016.

The group companies KfW IPEX-Bank and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) are, on the other hand, credit institutions within the meaning of the KWG. KfW IPEX-Bank is subject to the provisions of the KWG in full, while DEG is subject to certain restrictions.

### Transparency

KfW provides all important information about the bank’s annual and consolidated financial statements, the quarterly and semi-annual reports 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 reports of KfW and the group companies KfW IPEX-Bank and DEG including the declaration of compliance with the PCGK are always available on KfW’s 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 in monthly risk reports to the Executive Board. The Board of Supervisory Directors regularly receives detailed information on the bank’s risk situation, at least once a quarter.

### Compliance

The success of KfW Group is largely based on the confidence its shareholders, customers, business partners, employees and the general public place in its efficiency and above all in its integrity. This confidence rests not least on the implementation of and compliance with relevant statutory, supervisory and internal regulations and other relevant laws and rules. Compliance at KfW includes, in particular, measures to comply with data protection and financial sanctions, for securities compliance, as well as for the prevention of money laundering, terrorism financing and other criminal activities and to achieve adequate information security. There are therefore binding rules and procedures that influence the day-to-day implementation of values and the corporate culture, which are continually updated to reflect the current law as well as market requirements. Compliance’s responsibilities also include coordinating complete fulfilment of the requirements of the KWG (as applicable under the KfW Regulation) as well as the central function for compliance in accordance with MaRisk. Regular training sessions on all compliance issues are held for KfW’s employees. E-learning programmes are available in addition to classroom seminars.

### Accounting and auditing

As the supervisory authority, the Federal Ministry of Finance in consultation with the Federal Audit Office (*Bundesrechnungshof*) appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for financial year 2015 on 4 May 2015. The appointment was based on the proposal made by KfW’s Board of Supervisory Directors on 14 April 2015. The Audit Committee prepared this recommendation. The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any findings and incidents discovered during the audit that are significant to the duties of the Board of Supervisory Directors. It was furthermore agreed that the auditor would inform the Audit Committee Chairman or remark in the auditor’s report if it noticed any facts in performing the audit that represent misstatements in the Declaration of Compliance with the PCGK.

### Efficiency review of the Board of Supervisory Directors

The Board of Supervisory Directors has regularly reviewed the efficiency of its activities. A two-year frequency was set for the efficiency review; the last was performed in 2013. Since Section 25d (11) KWG became applicable as of 1 July 2014, the Presidial and Nomination Committee is required to evaluate both the Board of Supervisory Directors and the Executive Board on an annual basis. Both evaluations were performed in mid-2015 for the first time and are to be repeated every year.

## 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.

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

	2015	2014	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Executive Board	3,945.9	4,217.7	-271.8
Former members of the Executive Board and their surviving dependants	4,194.2	4,141.1	53.1
Members of the Board of Supervisory Directors	191.7	180.2	11.5
<b>Total</b>	<b>8,331.8</b>	<b>8,539.0</b>	<b>-207.2</b>

### Compensation of the Executive Board

The compensation system for KfW's 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 is taken into account when drawing up contracts. Each contract is individualised on this basis, accordingly.

### Components of compensation

The Executive Board members receive fixed monetary compensation paid in equal monthly instalments. One member who stepped down on 30 September 2015 received compensation on a pro rata basis in 2015, paid out in equal monthly sums. The compensation of the Chief Executive Officer is an exception; based on an agreed set of annual targets, he receives a variable end-of-year bonus in addition to his fixed salary. The minimum bonus payment for financial year 2015 was set at EUR 179,258. This minimum bonus payment does not apply if KfW's net income for a financial year is insufficient to ensure allocation to the statutory reserves. The annual targets agreed for financial year 2015 comprise promotional, economic and regulatory targets with a 60% quantitative to 40% qualitative weighting. A cap on the end-of-year bonus has been agreed.

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

### Responsibilities

The Presidial and Nomination Committee has discussed the Executive Board compensation system including contract components since the committee structure was modified in accordance with the applicable Section 25 d of the German Banking Act (*Kredit-*

### Annual compensation of the Executive Board and additions to pension provisions in financial years 2015 and 2014<sup>1)</sup>

	Salary		Variable compensation		Other compensation		Total		Additions to pension provisions <sup>2)</sup>	
	2015	2014	2015	2014	2015	2014	2015	2014 <sup>6)</sup>	2015	2014 <sup>6)</sup>
	EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands		EUR in thousands	
Dr Ulrich Schröder (Chief Executive Officer)	740.5	707.3	250.0	269.0	88.4	80.7	1,078.9	1,057.0	707.7	1,454.7
Dr Günther Bräunig <sup>4)</sup>	552.6	634.7	0.0	0.0	34.9	37.1	587.5	671.8	-190.8	2,155.2
Dr Ingrid Hengster <sup>7)</sup>	521.4	373.5	0.0	0.0	40.2	26.2	561.6	399.7	142.2	690.6
Dr Norbert Kloppenburg <sup>4)</sup>	552.6	634.7	0.0	0.0	44.6	43.6	597.2	678.3	-496.0	2,169.6
Dr Edeltraud Leibrock <sup>3)</sup>	412.7	525.3	0.0	0.0	91.0 <sup>5)</sup>	52.7	503.7	578.0	-1,460.4	810.9
Bernd Loewen	582.1	535.2	0.0	0.0	34.9	35.6	617.0	570.8	-209.9	1,189.7
<b>Total</b>	<b>3,361.9</b>	<b>3,410.7</b>	<b>250.0</b>	<b>269.0</b>	<b>334.0</b>	<b>275.9</b>	<b>3,945.9</b>	<b>3,955.6</b>	<b>-1,507.2</b>	<b>8,470.7</b>

<sup>1)</sup> Amounts in the table are subject to rounding differences.

<sup>2)</sup> The discount rate for pension provisions increased during the year under review from 1.75% (31 December 2014) to 2.28% (31 December 2015), resulting in reversals in some cases, as the present value of the obligation has decreased due to the higher discount rate. This also applies to pension provisions for Executive Board members. All provisions for Dr Leibrock were reversed as she stepped down from the Executive Board during the reporting year.

<sup>3)</sup> Dr Edeltraud Leibrock until 30 September 2015.

<sup>4)</sup> An anniversary bonus in accordance with KfW's general company policy of a total of EUR 112 thousand for 2014 is included in the 2014 and 2015 salaries.

<sup>5)</sup> Includes a one-time payment under a retrospective pension contribution agreement.

<sup>6)</sup> The totals for financial year 2014 do not include compensation paid to Dr Axel Nawrath, who stepped down on 31 March 2014, and the addition to pension provisions.

<sup>7)</sup> Dr Ingrid Hengster since 1 April 2014.

wesengesetz – “KWG”) and adopts and regularly reviews it. The Presidial and Nomination Committee is advised on these matters by the Remuneration Committee, which in turn considers the results of certain analyses of the recently established Risk and Credit Committee regarding the incentive effects of the compensation systems. Likewise, after consulting with the Remuneration Committee on the matter, the Board of Supervisory Directors decides upon the basic structure of the Executive Board’s compensation system.

The Presidial and Nomination Committee discussed compensation issues on numerous occasions during the reporting year, most recently at its meeting of 16 December 2015.

### **Fringe benefits**

Other compensation largely comprises fringe benefits. Executive Board members are entitled to a company car with a driver 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 under tax regulations for the cost of maintaining a secondary residence for business reasons.

Executive Board members are insured under a group accident insurance policy. Allowances are provided for health and long-term care insurance. Executive Board members are covered by a directors and officers liability insurance policy, which insures them against the risks of financial loss associated with their actions in their capacity as Executive Board members and by a supplemental legal expenses insurance policy. Currently there are no deductibles agreed. KfW Executive Board members acting in their management capacity are also protected by a special legal expenses group policy for employees covering criminal action.

No compensation is paid to members of the Executive Board for assuming executive body functions at group companies.

As with all other executives, Executive Board members may also opt to participate in the deferred compensation programme – a supplemental company pension scheme financed via tax-free salary conversion. Moreover, they are entitled to anniversary bonuses in accordance with KfW’s general company policy.

Moreover, the fringe benefits contain the cost of security systems at Executive Board members’ residences; these benefits are not recognised as other compensation but as Non-personnel expenses.

The fringe benefits are subject to taxation as benefits in money’s worth for Executive Board members if they cannot be granted on a tax-free basis or if this is contractually agreed.

There were no loans by KfW to any members of the Executive Board in 2015.

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 Article 1 (3) of the KfW Bylaws, the appointment of an Executive Board member should not generally extend beyond reaching the legal age of retirement. The Chief Executive Officer is exempt from this provision; he will be above the statutory retirement age at the end of his period of office which was renewed ahead of schedule in December 2015 until 31 December 2020. Upon reaching the age of 65 or statutory retirement age and the expiry of their Executive Board contract, Executive Board members are entitled to claim pension payments; they are also entitled to pension benefits if their employment relationship terminates due to permanent disability. Two members of the Executive Board who were first appointed to the Board in 2006 and 2007 respectively and subsequently reappointed also have the option of retiring at their own request at the age of 63. These Executive Board members were initially entitled to early retirement benefits under certain circumstances; however, these were grandfathered and converted into a temporary allowance for each when the members were reappointed.

Pension commitments for Executive Board members as well as their surviving dependants are based on the 1992 version of the Federal Government’s policy for hiring executive board members at credit institutions. The PCGK is taken into account when drawing up the Executive Board contracts.

Executive Board member contracts include a severance pay cap in accordance with the recommendations of the PCGK. In other words, payments to these Executive Board members due to early termination of the Executive Board function without good cause in accordance with Section 626 of the 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, whichever is lower.

The full benefit entitlement totalled 70% of the pensionable salary in the reporting year. The pensionable salary was equivalent to 70% of the last remuneration (49% of salary). With the exception of the CEO, the retirement benefit entitlement amounted to 70% of the full entitlement for first-time appointment, with an increase per completed year of service of 2.5% to 3% depending on the contract (from an initial 34.3% to a maximum of 49%).

The Executive Board contracts contain additional individual provisions, in particular concerning vesting of pension benefits. The newer contracts also include provisions on retrospective pension contributions where pension benefits are not yet vested and the member in question has not been reappointed.

Pension payments to former Executive Board members or their surviving dependants were as follows in 2015 and 2014:

### Pension payments to former Executive Board members or their surviving dependants

	Head-count 2015	EUR in thou- sands 2015	Head- count 2014	EUR in thou- sands 2014
Former members of the Executive Board	19	3,374.5	19	3,260.6
Surviving dependants	10	819.7	11	880.5
<b>Total</b>	<b>29</b>	<b>4,194.2</b>	<b>30</b>	<b>4,141.1</b>

Provisions in the amount of EUR 64,931.5 thousand had been set up at the end of the financial year 2015 for pension obligations to former members of the Executive Board and their surviving dependants (previous year: EUR 69,100.9 thousand).

No loans were granted to former Executive Board members or their surviving dependants in financial year 2015.

### Compensation of 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 Article 7 (10) of the KfW Bylaws. 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 Article 7 (1) No. 1 and No. 2 of the KfW Law was set at EUR 0.

In 2015, compensation for other members of the Board of Supervisory Directors pursuant to Article 7 (1) Nos. 3–7 of the KfW Law amounted to EUR 5,100 p. a.; compensation for membership of a Board of Supervisory Directors committee was a standard amount of EUR 600 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 200 per meeting day) is paid and travel expenses and applicable VAT are reimbursed upon request.

The following table provides details on the compensation paid to the Board of Supervisory Directors in financial year 2015; stated amounts are net amounts in thousands of euros. Travel expenses are reimbursed upon submission of receipts and are not taken into account in the table.

## Compensation of members of the Board of Supervisory Directors for the financial year 2015

No.	Name	Dates of membership	Board of Supervisory Directors membership <sup>1)</sup>	Committee membership <sup>1)</sup>	Daily allowance	Total
			EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
		2015				
1	Dr Wolfgang Schäuble	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
2	Sigmar Gabriel	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
3	Kerstin Andreae	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
4	Norbert Barthle	31 Jan.–14 Apr.	1.5	0.4	0.2	2.1
5	Jan Bettink	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
6	Anton F. Börner	1 Jan.–31 Dec.	5.1	0.6	0.2	5.9
7	Hans-Dieter Brenner	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
8	Frank Bsirske	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
9	Jens Bullerjahn <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
10	Alexander Dobrindt	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
11	Georg Fahrenschon	1 Jan.–31 Dec.	5.1	2.5	0.0	7.6
12	Robert Feiger	1 Jan.–31 Dec.	5.1	0.6	0.4	6.1
13	Klaus-Peter Flosbach	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
14	Hubertus Heil	1 Jan.–31 Dec.	5.1	1.8	0.6	7.5
15	Dr Barbara Hendricks	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
16	Prof. Dr Hans-Günter Henneke	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
17	Reiner Hoffmann	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
18	Gerhard Hofmann	1 Jan.–31 Dec.	5.1	1.2	0.2	6.5
19	Bartholomäus Kalb	31 Jan.–31 Dec.	5.1	0.6	1.2	6.9
20	Dr Markus Kerber	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
21	Stefan Körzell	1 Jan.–31 Dec.	5.1	1.2	0.6	6.9
22	Dr Matthias Kollatz-Ahnen <sup>2)</sup>	6 Feb.–31 Dec.	4.7	0.5	0.0	5.2
23	Dr Gesine Löttsch	1 Jan.–31 Dec.	5.1	1.2	0.6	6.9
24	Dr Gerd Müller	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
25	Eckhardt Rehberg	23 Apr.–31 Dec.	3.6	0.8	0.2	4.6
26	Joachim Rukwied	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
27	Dr Nils Schmid <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.6	0.2	5.9
28	Christian Schmidt	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
29	Andreas Schmitz	1 Jan.–31 Dec.	5.1	2.5	1.4	9.0
30	Carsten Schneider	1 Jan.–31 Dec.	5.1	1.2	1.0	7.3
31	Peter-Jürgen Schneider <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.0	0.4	5.5
32	Holger Schwannecke	1 Jan.–31 Dec.	5.1	1.8	0.0	6.9
33	Erwin Sellering <sup>2)</sup>	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
34	Dr Markus Söder <sup>2)</sup>	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
35	Dr Frank-Walter Steinmeier	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
36	Dr Norbert Walter-Borjans <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
37	Dr Martin Wansleben	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
38	Dr Kai H. Warnecke	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
<b>Total</b>			<b>152.6</b>	<b>27.7</b>	<b>11.4</b>	<b>191.7</b>

<sup>1)</sup> The amounts had not yet been paid out as of the reporting date 31 December 2015.

<sup>2)</sup> Amount governed by state law.



## Compensation of members of the Board of Supervisory Directors for the financial year 2014

No.	Name	Dates of membership	Board of Supervisory Directors membership <sup>1)</sup>	Committee membership <sup>1)</sup>	Daily allowance	Total
			EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
		2014				
1	Sigmar Gabriel	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	Norbert Barthle	31 Jan.–31 Dec.	5.1	0.8	0.6	6.5
4	Jan Bettink	1 Jan.–31 Dec.	5.1	1.0	0.0	6.1
5	Anton F. Börner	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
6	Hans-Dieter Brenner	18 June–31 Dec.	3.0	0.3	0.6	3.9
7	Frank Bsirske	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
8	Jens Bullerjahn <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
9	Alexander Dobrindt	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
10	Georg Fahrenschon	1 Jan.–31 Dec.	5.1	2.0	0.4	7.5
11	Robert Feiger	8 Jan.–31 Dec.	5.1	0.3	0.8	6.2
12	Klaus-Peter Flosbach	1 Feb.–31 Dec.	4.7	0.5	0.8	6.0
13	Dr Hans-Peter Friedrich	1 Jan.–17 Feb.	0.0	0.0	0.0	0.0
14	Hubertus Heil	1 Jan.–31 Dec.	5.1	1.5	0.6	7.2
15	Dr Barbara Hendricks	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
16	Prof. Dr Hans-Günter Henneke	1 Jan.–31 Dec.	5.1	0.0	0.4	5.5
17	Reiner Hoffmann	18 June–31 Dec.	3.0	0.5	0.0	3.5
18	Gerhard Hofmann	1 Jan.–31 Dec.	5.1	1.0	0.0	6.1
19	Bartholomäus Kalb	31 Jan.–31 Dec.	5.1	0.5	0.8	6.4
20	Dr Markus Kerber <sup>3)</sup>	1 Jan.–31 Dec.	3.0	0.6	0.0	3.6
21	Stefan Körzell	1 July–31 Dec.	2.6	0.5	0.4	3.5
22	Dr h. c. Jürgen Koppelin	1 Jan.–31 Dec.	5.1	0.5	0.6	6.2
23	Dr Gesine Lötzsch	1 Jan.–31 Dec.	5.1	1.1	0.6	6.8
24	Claus Matecki	1 Jan.–30 June	2.6	0.0	0.2	2.8
25	Dr Michael Meister <sup>4)</sup>	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
26	Dr Gerd Müller	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
27	Dr Ulrich Nussbaum <sup>2)</sup>	1 Jan.–10 Dec.	5.1	0.6	0.0	5.7
28	Joachim Rukwied	1 Jan.–31 Dec.	5.1	0.5	0.6	6.2
29	Dr Nils Schmid <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
30	Christian Schmidt	17 Feb.–31 Dec.	0.0	0.0	0.0	0.0
31	Andreas Schmitz	1 Jan.–31 Dec.	5.1	2.0	1.0	8.1
32	Carsten Schneider	31 Jan.–31 Dec.	5.1	1.0	0.8	6.9
33	Peter-Jürgen Schneider <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
34	Holger Schwannecke	1 Jan.–31 Dec.	5.1	1.5	0.6	7.2
35	Erwin Sellering <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.8	0.0	5.9
36	Dr Markus Söder <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.8	0.0	5.9
37	Michael Sommer	1 Jan.–15 May	2.1	0.3	0.0	2.4
38	Dr Frank-Walter Steinmeier	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
39	Dr Norbert Walter-Borjans <sup>2)</sup>	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
40	Dr Martin Wansleben	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
41	Dr Kai H. Warnecke	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
<b>Total</b>			<b>148.5</b>	<b>21.3</b>	<b>10.4</b>	<b>180.2</b>

<sup>1)</sup> The amounts had not yet been paid out as of the reporting date 31 December 2014.

<sup>2)</sup> Amount governed by state law.

<sup>3)</sup> Seat in abeyance until 2 June 2014 (inclusive)

<sup>4)</sup> No compensation drawn since 16 December 2013.

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

Members of the Board of Supervisory Directors received no compensation in the reporting year for personal services provided.

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

Members of the Board of Supervisory Directors are also 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. There is currently no excess here either. KfW's Supervisory Directors acting in their capacity as such are also protected by a special legal expenses group policy for employees covering criminal action and by a group accident insurance policy.

Frankfurt am Main, 27 April 2016

**The Executive Board**

**The Board of Supervisory Directors**

### Executive Board

**Dr Ulrich Schröder** (Chief Executive Officer) | **Dr Günther Bräunig** | **Dr Ingrid Hengster** | **Dr Norbert Kloppenburg**  
**Dr Edeltraud Leibrock** (until 30 September 2015) | **Bernd Loewen** | **Dr Stefan Peiss** (since 1 January 2016)

### Directors

<b>Dr Stefan Breuer</b>	<b>Dirk Kuhmann</b>	<b>Dr Stefan Peiss</b>
<b>Dr Frank Czichowski</b>	<b>Cherifa Larabi</b>	(until 31 December 2015)
<b>Andreas Fichelscher</b>	<b>Dr Katrin Leonhardt</b>	<b>Dr Jürgen Schneider</b>
<b>Eberhard Fuchs</b> (interim)	<b>Dr Velibor Marjanović</b>	(until 31 December 2015)
<b>Dr Lutz-Christian Funke</b>	<b>Andreas Müller</b>	<b>Matthias Schwenk</b>
<b>Helmut Gauges</b>	<b>Klaus Neumann</b>	<b>Roland Siller</b>
<b>Werner Genter</b>	<b>Werner Oerter</b> (until 31 May 2015)	<b>Birgit Spors</b>
<b>Dr Volker Gross</b>	<b>Stephan Opitz</b>	<b>Robert Szvedo</b> (since 1 January 2016)
<b>Detlev Kalischer</b>	<b>Christiane Orlowski</b>	<b>Klaus Weirich</b>
<b>Klaus Klüber</b> (until 31 August 2015)		

### Members of the Management Board of KfW IPEX-Bank GmbH

**Klaus R. Michalak** (CEO) | **Christian K. Murach** | **Markus Scheer** | **Andreas Ufer**

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

### Managing Directors of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

**Bruno Wenn** (Chairman) | **Christiane Laibach** | **Philipp Kreutz**

DEG was founded in 1962 and has been a wholly-owned subsidiary of KfW Group 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 emerging market countries for more than 50 years.

# Members and tasks of the Board of Supervisory Directors

The Board of Supervisory Directors supervises the conduct of the bank's business and the administration of its assets. It approves, among other things, 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 for Economic Affairs and Energy.

## **Sigmar Gabriel**

Federal Minister for Economic Affairs and Energy  
Deputy Chairman  
(1 January 2015–31 December 2015)  
Chairman  
(since 1 January 2016)

## **Dr Wolfgang Schäuble**

Federal Minister of Finance  
Chairman  
(1 January 2015–31 December 2015)  
Deputy Chairman  
(since 1 January 2016)

## **Kerstin Andreae**

Member of the German Bundestag  
Member appointed by the German Bundestag

## **Norbert Barthle**

Member of the German Bundestag  
Member appointed by the German Bundestag  
(until 14 April 2015)

## **Jan Bettink**

President of the Association of German Pfandbrief Banks  
Representative of the mortgage banks

## **Anton F. Börner**

President of the Federation of German Wholesale, Foreign Trade and Services (BGA)  
Representative of trade

## **Dr Uwe Brandl**

President of the Bayerischer Gemeindetag  
Representative of the municipalities  
(since 1 January 2016)

## **Hans-Dieter Brenner**

Former Chief Executive Officer  
Helaba Landesbank  
Hessen-Thüringen  
Representative of industrial credit

## **Frank Bsirske**

Chairman of ver.di –  
United Services Trade Union  
Representative of the trade unions

## **Jens Bullerjahn**

Deputy Minister President  
Minister of Finance of the State of Saxony-Anhalt  
Member appointed by the German Bundesrat  
(until 31 December 2015)

## **Alexander Dobrindt**

Federal Minister of Transport and Digital Infrastructure

## **Georg Fahrenschon**

President of the German Savings Banks Association (DSGV)  
Representative of the savings banks

## **Robert Feiger**

Chairman of the Federal Executive Committee of the IG Bauen-Agrar-Umwelt trade union (IG Bau)  
Representative of the trade unions

## **Klaus-Peter Flosbach**

Member of the German Bundestag  
Member appointed by the German Bundestag

## **Christian Görke**

Deputy Minister President  
Minister of Finance of the State of Brandenburg  
Member appointed by the German Bundesrat  
(since 1 January 2016)

## **Hubertus Heil**

Member of the German Bundestag  
Member appointed by the German Bundestag

## **Monika Heinold**

Minister of Finance of the State of Schleswig-Holstein  
Member appointed by the German Bundesrat  
(since 1 January 2016)

## **Dr Barbara Hendricks**

Federal Minister for the Environment, Nature Conservation, Building and Nuclear Safety

## **Prof. Dr Hans-Günter Henneke**

Managing Member of the Executive Committee of the Federation of German Districts (DLT)  
Representative of the municipalities  
(until 31 December 2015)

## **Reiner Hoffmann**

Chairman of the German Trade Union Confederation (DGB)  
Representative of the trade unions

## **Gerhard Hofmann**

Member of the Board of Managing Directors of the National Association of German Cooperative Banks (BVR)  
Representative of the cooperative banks

**Bartholomäus Kalb**

Member of the German Bundestag  
Member appointed by the  
German Bundestag

**Dr Markus Kerber**

Director General of the Federation of  
German Industries (BDI)  
Representative of industry

**Stefan Körzell**

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

**Dr Matthias Kollatz-Ahnen**

Senator of Finance for Berlin  
Member appointed by the  
German Bundesrat  
(6 February 2015–31 December 2015)

**Dr Gesine Lötzsich**

Member of the German Bundestag  
Member appointed by the  
German Bundestag

**Dr Gerd Müller**

Federal Minister for Economic  
Cooperation and Development

**Eckhardt Rehberg**

Member of the German Bundestag  
Member appointed by the  
German Bundestag  
(since 23 April 2015)

**Joachim Rukwied**

President of the German Farmers'  
Association (DBV)  
Representative of agriculture

**Dr Nils Schmid**

Minister of Finance and Economics  
of the State of Baden-Württemberg  
Member appointed by the  
German Bundesrat

**Christian Schmidt**

Federal Minister of Food and Agriculture

**Andreas Schmitz**

Member of the Presidency of the  
Association of German Banks (BdB)  
Chairman of the Management Board  
of HSBC Trinkaus & Burkhardt AG  
Representative of the commercial banks

**Carsten Schneider**

Member of the German Bundestag  
Member appointed by the  
German Bundestag

**Peter-Jürgen Schneider**

Minister of Finance of the State  
of Lower Saxony  
Member appointed by the  
German Bundesrat

**Holger Schwannecke**

Secretary General of the German  
Confederation of Skilled Crafts (ZDH)  
Representative of the skilled crafts

**Erwin Sellering**

Minister President of the State of  
Mecklenburg-West Pomerania  
Member appointed by the  
German Bundesrat  
(until 31 December 2015)

**Dr Markus Söder**

Bavarian State Minister of Finance,  
Regional Development and  
Regional Identity  
Member appointed by the  
German Bundesrat

**Dr Frank-Walter Steinmeier**

Federal Minister for Foreign Affairs

**Prof. Dr Georg Unland**

Saxon State Minister of Finance  
Member appointed by the  
German Bundesrat  
(since 1 January 2016)

**Dr Norbert Walter-Borjans**

Minister of Finance of the State of  
North Rhine-Westphalia  
Member appointed by the  
German Bundesrat

**Dr Martin Wansleben**

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

**Dr Kai H. Warnecke**

Managing Director  
Haus & Grund Germany  
Representative of the housing industry

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