Annual Report 2003

KfW BANKENGRUPPE




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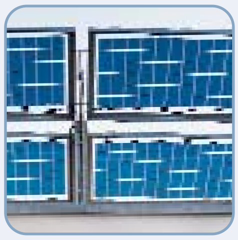

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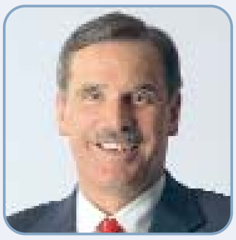
BOARD OF MANAGING DIRECTORS OF KFW BANKENGRUPPE.

THE BOARD OF MANAGING DIRECTORS.

Dr. Peter Klaus	Detlef Leinberger	Hans W. Reich (Chairman)	Ingrid Matthäus-Maier	Wolfgang Kroh	Dr. Peter Fleischer
					

EXECUTIVE DIRECTOR.

Dr. Michael Bornmann

GENERAL MANAGER.

Dr. Günther Bräunig

DIRECTORS.

Dr. Stefan Breuer
Michael Ebert
Werner Genter
Dr. Dieter Glüder
Dr. Volker Groß
Rainer Hartje
Heinrich Heims
Dr. Norbert Kloppenburg
Klaus Klüber
Gerhard Lewark
Christian Murach
Dr. Hanns-Peter Neuhoff
Klaus Neumann
Werner Oerter
Christiane Orlowski
Ludolf Rischmüller
Wolfgang Roßmeißl
Dr. Bernd Schreiber
Gunnar Seibert
Dietrich Suhlrie
Bruno Wenn
Dr. Christian Zacherl

BOARD OF MANAGING DIRECTORS OF KFW IPEX-BANK.

Dr. Peter Klaus (Chairman)
Michael Ebert
Heinrich Heims
Christian Murach

The business areas of project and corporate finance in Germany and international export and project finance were regrouped into KfW IPEX-Bank. Since January 1, 2004 KfW IPEX-Bank has started to operate as a legally dependent 'bank within the bank'. As from the year 2008 it will be a legally independent subsidiary of KfW Bankengruppe and will be subject to the German Banking Act (KWG) and to banking supervisory regulations.

KEY FIGURES FOR KFW BANKENGRUPPE.

Key Figures for KfW Bankengruppe
EUR million

	2001[1]	2002[1]	2003[1]
I. KfW Mittelstandsbank	**15,156.8**	**17,956.0**	**13,796.7**
Loan financing	11,308.3	9,461.8	9,013.0
of which: global loans to trade and industry	*1,480.6*	*2,360.2*	*3,211.2*
Mezzanine financing	386.2	333.5	988.1
Equity financing	790.6	369.0	311.1
PROMISE securitisations	2,671.8	7,791.7	3,484.4
II. KfW Förderbank	**18,572.1**	**31,608.2**	**44,851.5**
Housing investments	8,431.4	10,346.3	15,442.2
of which: global loans to the housing industry	–	*1,409.8*	*3,670.0*
Education	197.7	712.7	777.9
Municipal infrastructure	3,174.2	3,035.5	4,682.7
Environmental investments	4,268.8	3,696.0	4,020.8
Global credit lines to special credit institutions of the federal states	–	1,550.0	1,529.1
PROVIDE securitisations	2,500	12,267.7	18,398.8
Investment finance in Germany and Europe	**33,728.9**	**49,564.2**	**58,648.2**
III. KfW IPEX-Bank	**12,294.5**	**10,358.7**	**11,443.3**
Industry, telecommunication, raw material	3,597.8	4,219.2	3,713.8
Energy, environment	2,390.4	1,535.2	1,864.9
Transport and transport infrastructure	6,281.3	4,604.5	5,814.6
AKA export loans	25.0	–	50.0
IV. KfW Entwicklungsbank	**1,594.4**	**1,290.7**	**1,594.1**
Budget funds	1,040.3	970.6	1.084.8
KfW funds	392.0	180.6	432.1
Other donors' funds (EU, GEF, etc.)	162.1	139.5	77.2
V. DEG	**412.0**	**463.7**	**505.9**
Total financing volume	**48,029.8**	**61,677.3**	**72,191.5**
Volume of business	**283,940**	**372,165**	**402,341**
Balance-sheet total	**245,777**	**303,799**	**313,894**
Capital and Reserves	**7,393**	**9,274**	**9,939**
Net income for the year	**207**	**264**	**247**
Number of employees	**2,541**	**3,574**	**3,670**

Differences in the totals are due to rounding.

[1] To make the annual figures comparable the DtA figures for the years 2001 and 2002 were included ex post facto, except for the 2001 figures for the volume of business, the balance-sheet total, capital and reserves and the net income.

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS.

Wolfgang Clement
Federal Minister of Economics and Labour

The Board of Supervisory Directors has continually supervised the conduct of KfW's business and the administration of its assets. For this purpose, in particular to take decisions on the provision of financings and the granting of guarantees pursuant to the conditions set forth in the Law and the By-Laws, several meetings of the Board of Supervisory Directors and of its committees were held during the year under review.

In these meetings the Board of Managing Directors gave up-to-the-minute reports on the development and the perspectives in the different business areas. Information was also provided on KfW's risk structure and risk balance and on the earnings situation and the expected development of results. The new concept of a group-wide business area planning based on the notion of economic capital was presented for the first time.

2003 was a year of far-reaching structural changes for KfW, which were discussed during the meetings. Reporting focused strongly on the Promotional Banks Restructuring Act, in particular on the merger of KfW and Deutsche Ausgleichsbank (DtA) and on the legal implementation of the understanding reached with the EU. Major items of the amendment to the KfW Law were the definition of a catalogue of promotional tasks and the separation of the market activities of the export and project finance business into an independent subsidiary to be established by the year 2008. As a result of the amendment to the KfW Law the Board of Supervisory Directors was expanded by 9 members to a total of 37 members. Furthermore a decision was taken regarding the alternation of the chair between the Federal Minister of Finance and the Federal Minister of Economics and Labour and the new "Mittelstandsrat" (SME advisory council) was created to concretize the public mission of the Mittelstandsbank (SME bank). The impact of the amendment to the KfW Law on the KfW By-Laws was discussed by the Board Supervisory Directors and changes to the By-Laws were agreed.

When the merger took effect the Chairman of the Board of Managing Directors of DtA, Dr. Peter Fleischer, was appointed to KfW's Board of Managing Directors as an additional member. During the calendar year 2004 the Federal Minister of Economics and Labour will be the Chairman of the Board of Supervisory Directors.

On several occasions the Board of Managing Directors reported on the current state of the merger between KfW and DtA. Explanations were provided in particular on the impacts on the organisational structure and on the newly developed range of products for KfW Mittelstandsbank (KfW SME bank). Further issues were the new brand architecture of KfW Bankengruppe, the report on KfW's environmental activities and the presentation of the programmes to promote housing construction.

The Loan Approvals Committee concerned itself with the commitments that have to be presented under the Law and By-Laws. The business model and the organisation of KfW IPEX-Bank, which is to be separated as an independent subsidiary by 2008, were also presented. KfW's participation in the establishment of a company to actively promote the German securitisation market (True Sale Initiative) was also discussed and approved.

KfW's offer of information and advisory services, which had been redrawn after the merger with DtA, was presented to the Advisory Council for Promotional Measures in the Eastern Federal States.

With the enactment of the Promotional Banks Restructuring Act the following members were appointed to the enlarged Board of Supervisory Directors at the end of 2003:
Representatives of the Bundestag (Federal Parliament): Dietrich Austermann, Klaus Brandner, Bartholomäus Kalb, Waltraud Lehn, Friedrich Merz, Christine Scheel and Ludwig Stiegler.
Representatives of the Bundesrat (Upper House): Roland Koch and Hartmut Möllring.

During the year under review Peter Benz, Dr. Karsten von Köller, Ursula Konitzer, Prof. Dr. Karl-Heinz Paqué, Hartmut Perschau, Dr. Thilo Sarrazin and Dr. Franz Schoser left the Board of Supervisory Directors. The Board of Supervisory Directors thanks these former members for their intensive cooperation and valuable commitment to the concerns of the bank. Dr. Günter Baumann, Jochen Dieckmann, Prof. Dr. Hans-Günter Henneke, Prof. Dr. Wolfgang Methling, Dr. Horst Metz, Margret Mönig-Raane and Dr. Ralf Stegner joined the Board of Supervisory Directors.

PwC Deutsche Revision AG, Frankfurt am Main, who were appointed auditors by the Supervisory Authority following the proposal by the Board of Supervisory Directors, have examined and unconditionally confirmed the Annual Financial Statements drawn up by the Board of Managing Directors as of December 31, 2003. The Board of Supervisory Directors approved the Annual Financial Statements in accordance with §9, Paragraph 2 of the KfW Law in its meeting on May 14, 2004.

Frankfurt am Main, May 14, 2004

THE BOARD OF SUPERVISORY DIRECTORS

Chairman

BOARD OF SUPERVISORY DIRECTORS.

DUTIES OF THE BOARD OF SUPERVISORY DIRECTORS.

The Board of Supervisory Directors supervises the conduct of the bank's business and the adminstration of its assets. It approves the larger loans and the Annual Statement of Accounts. The Board of Supervisory Directors consists of 37 members. The Chairman is the Federal Minister of Economics and Technology and the Deputy Chairman is the Federal Minister of Finance.

Wolfgang Clement
Federal Minister of Economics and Labour
Chairman
(since January 1, 2004)
Deputy Chairman
(until December 31, 2003)

Hans Eichel
Federal Minister of Finance
Deputy Chairman
(since January 1, 2004)
Chairman
(until December 31, 2003)

Dietrich Austermann
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Dr. Günter Baumann
Member of the Board of DIHK Deutscher Industrie- und Handelskammertag
Representative of Industry
(since January 1, 2004)

Peter Benz
Lord Mayor of the City of Darmstadt
Representative of the Municipalities
(until December 31, 2003)

Anton F. Börner
President of the Bundesverband des Deutschen Groß- und Außenhandels e.V.
Representative of Trade

Klaus Brandner
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Dr. Rolf-E. Breuer
President of the Bundesverband deutscher Banken e.V.
Representative of the Commercial Banks

Dr. Ulrich Brixner
Chairman of the Board of Managing Directors of DZ BANK AG
Representative of the Cooperative Banks

Jochen Dieckmann
Minister of Finance of the State of North Rhine-Westphalia
Member appointed by the Bundesrat (Upper House)
(since February 14, 2003)

Joschka Fischer
Federal Minister of Foreign Affairs

Lutz Freitag
President of the GdW Bundesverband deutscher Wohnungsunternehmen e.V.
Representative of Housing

Dr. Rolf-Jürgen Freyberg
Spokesman of the Board of BGAG Beteiligungsgesellschaft der Gewerkschaften AG
Representative of the Trade Unions

Prof. Dr. Hans-Günter Henneke
Managing Director of the Deutscher Landkreistag
Representative of the Municipalities
(since January 1, 2004)

Dr. Dietrich H. Hoppenstedt
President of the Deutscher Sparkassen- und Giroverband e.V.
Representative of the Savings Banks

Bartholomäus Kalb
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Roland Koch
Minister President of the State of Hesse
Member appointed by the Bundesrat (Upper House)
(since 17. November 2003)

Dr. Karsten von Köller
Chairman of the Board of Managing Directors of EUROHYPO AG (ret.)
Representative of the Mortgage Banks
(until December 31, 2003)

Ursula Konitzer
Member of the Executive Board of ver.di (ret.)
Representative of the Trade Unions
(until December 31, 2003)

Renate Künast
Federal Minister of Consumer Protection, Food and Agriculture

Waltraud Lehn
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Friedrich Merz
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Prof. Dr. Wolfgang Methling
Minister for the Environment of the State of Mecklenburg-Vorpommern
Member appointed by the Bundesrat (Upper House)
(since January 1, 2004)

Dr. Horst Metz
Minister of Finance of the Free State of Saxony
Member appointed by the Bundesrat (Upper House)
(since January 1, 2004)

Hartmut Möllring
Minister of Finance of the State of Lower Saxony
Member appointed by the Bundesrat (Upper House)
(since November 17, 2003)

Margret Mönig-Raane
Deputy Chairman of ver.di e.V.
Representative of the Trade Unions
(since January 1, 2004)

Prof. Dr. Karl-Heinz Paqué
Minister of Finance of the State of Saxony-Anhalt
Member appointed by the Bundesrat (Upper House)
(until December 31, 2003)

Hartmut Perschau
Mayor of the Free Hanseatic City of Bremen
Member appointed by the Bundesrat (Upper House)
(until December 31, 2003)

Heinz Putzhammer
Member of the Executive Board of the Deutscher Gewerkschaftsbund
Representative of the Trade Unions

Dr. Michael Rogowski
President of the Bundesverband der Deutschen Industrie e.V.
Representative of Industry

Dr. Thilo Sarrazin
Senator for Finance of the State of Berlin
Member appointed by the Bundesrat (Upper House)
(until December 31, 2003)

Christine Scheel
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Hanns-Eberhard Schleyer
Secretary-General of the Zentralverband des Deutschen Handwerks
Representative of the Crafts

Dr. Franz Schoser
Managing Director of the Deutscher Industrie- und Handelskammertag (ret.)
Representative of Industry
(until December 31, 2003)

Michael Sommer
Chairman of the Deutscher Gewerkschaftsbund
Representative of the Trade Unions

Gerhard Sonnleitner
President of the Deutscher Bauernverband e.V.
Representative Agriculture

Dr. Ralf Stegner
Minister of Finance of the State of Schleswig-Holstein
Member appointed by the Bundesrat (Upper House)
(since January 1, 2004)

Ludwig Stiegler
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Dr. Manfred Stolpe
Federal Minister of Transport, Building and Housing

Erwin Teufel
Minister President of the State of Baden-Württemberg
Member appointed by the Bundesrat (Upper House)

Dr. Alexander von Tippelskirch
Spokesman of the Board of Managing Directors of IKB Deutsche Industriebank Aktiengesellschaft
Representative of the Industrial Loan Banks

Jürgen Trittin
Federal Minister of the Environment, Nature Protection and Reactor Safety

Heidemarie Wieczorek-Zeul
Federal Minister of Economic Cooperation and Development

LETTER FROM THE BOARD OF MANAGING DIRECTORS.

THE YEAR OF DECISIONS.

The year 2003 was a year of change and innovations for KfW Bankengruppe. KfW is a different bank today from what it was at the start of the past year. The bank's mission has a new and long-term basis and KfW is a firm component of Germany as a financial centre. The new KfW Bankengruppe also has a new look in the market: In keeping with the bank's aims four new brands now represent the bank's products: KfW Mittelstandsbank (KfW SME bank), KfW Förderbank (KfW promotional bank), KfW IPEX-Bank and KfW Entwicklungsbank (KfW development bank), beside our well-known subsidiary DEG. A striking modern logo stands for all the brands of KfW Bankengruppe. It expresses the innovative strength and dynamic that are inherent in the new KfW.

The progress towards the new KfW Law, which came into force in August, dominated events in 2003. The law was passed unanimously in the Federal Parliament in record time. Besides having structural and regulatory effects it also paved the way for a strategic restructuring of our promotional activities. The new Law is the basis of the comprehensive renewal of SME financing, and of export and project finance that is designed to be long term and to conform with EU and competition requirements.

The year 2003 brought much for KfW and demanded much. For in 2003 KfW Bankengruppe completed the dissolution and complete integration of Deutsche Ausgleichsbank, and introduced the new KfW IPEX-Bank to the export and project financing market. From market exit to market entrance! A crowded year indeed!

THE MERGER.

It was above all thanks to the achievement of the men and women on the staff of KfW and DtA that the merger went through without making negative headlines. Under the slogan "No operational redundancies" it proved possible to integrate our colleagues from Bonn objectively and efficiently while continuing our active business operations. Our thanks go to all 3,600 staff who work for the group in four locations. But our thanks also go to all those in the federal and state ministries, in the Federal Parliament and the Upper House who worked with commitment with their representatives in order to make the Promotional Banks Restructuring Act a reality.

Certainly most was demanded of the staff of the former DtA. Their institution lost its identity. Today they are part of the bigger KfW, and they are pleased to be here, as we now know. Their work is resumed in KfW Mittelstandsbank, which plays a central role. KfW Bankengruppe is now in a position to offer business start-ups and SME customers a much more transparent and efficient range of products: Promotion from a single source. Promotion for all phases of corporate development, promotion in tune with the market and with means that meet market requirements including consultancy. The new KfW Mittelstandsbank does not make gifts, it finances the future. Through the merger of KfW and DtA Germany has come a big step closer to slim and effective SME promotion.

KfW Mittelstandsbank came at the right time. As rarely before, topics related to SME finance have been under intensive public discussion since last year. The structural change in the banking industry and the difficult economic situation are greatly hampering access of small and medium-sized firm to the capital they need. We therefore see securing SME finance as our greatest task this year and in coming years. That is why we started restructuring our programmes to promote small and medium-sized enterprises even before the merger. Since September 1, 2003 we have been offering business start-ups and SMEs a central financing product, the Unternehmerkredit (entrepreneurial loan), which offers classical investment loans. Since March 1, 2004 an additional innovative offer, the Unternehmerkapital (entrepreneurial capital), has also been available. This is a mezzanine product line that provides small and medium-sized firms with subordinate loans. Our aim is to help ease the chronic shortage of equity capital – which is a major obstacle to growth – for the German SME sector. During the current year we also want to make SMEs a new offer for the provision of external equity capital, that is, equity participations.

Of course KfW Mittelstandsbank cannot free the SME sector of its cares and worries over financing options overnight. Nor is every business model such that it can be financed, but considering, for instance, that in 2003 we granted more than 46,000 loans to small and medium-sized businesses it is clear that in 2004 as well we will be working hard, not least in cooperation with other banks and savings banks through the Initiative Finanzplatz Deutschland (Initiative for Germany as a Financial Centre) to put the financing conditions for companies in Germany back on a secure foundation.

KFW IPEX-BANK.

DtA's exit from the market in August 2003 was followed in the second half of that year by the successive preparations for the market entry of our new export and project finance bank, KfW IPEX-Bank. Since January 1, 2004 KfW IPEX-Bank has been working as an organizationally independent but still legally dependent "bank within the bank". After a transition period of four years it will be changed into a legally independent subsidiary of KfW Bankengruppe. The parent bank will no longer be liable and the new subsidiary will operate without its funding and tax advantages.

The KfW IPEX-Bank project was the second big challenge of 2003. During the year the business model and structures of the new export and project finance were developed and the long-term business objectives defined. The name of the new bank was suggested, not by consultants but by a member of our staff. Not only from events like this do we know how great the identification of our staff with their new bank already is. We are building the future of KfW IPEX-Bank on them.

The ground is prepared. The strategic direction and organisation are decided. The management has started work. KfW IPEX-Bank can draw on fifty years' experience in export and project finance, a loan portfolio of EUR 70 billion and sector-specific know-how that is acknowledged worldwide. We are convinced that the bank will soon have established itself as a leading specialised bank. Exports particularly have often proved the motor of Germany's economic recovery in the past, and the German economy is pinning its hopes on exports again this year. With KfW IPEX-

Bank we are helping to ensure that the German and European economies will always have a strong partner in their export business who remains as true to its values and objectives as to its customers. That is still our statutory task. In this way we are making our long-term contribution to supporting and reviving the economy.

OUR BUSINESS ACTIVITY.

Despite all the conversion activities KfW's business did not suffer in 2003. On the contrary, we were able to advance our promotion work further and increase the financing volume altogether by around 17 %. On December 31, 2003 the group had a balance sheet total of EUR 315 billion. The total financing volume is also gratifying at EUR 72.3 billion, particularly for a merger year. We give detailed information on our activities in every area of our business in this Annual Report as well.

So we took our central tasks, the promotion of the German economy and Financial Cooperation with developing countries, very seriously and tackled them successfully in 2003, the year of changes and redirection as well. The result of KfW Förderbank deserves special mention. At just under EUR 27.7 billion it was around one third higher than in the previous year. The two programmes launched in April 2003, the Special Fund 'Growth Impulses' for municipal infrastructure, and KfW Housing Modernisation Programme 2003 for private housing construction made a particular contribution with more than 250,000 individual commitments. Both programmes were initiated and are financially supported by the federal government, and they have had lasting effect in strengthening economic activity, particularly in construction-related trades. They are also helping to stabilise the labour market and reduce CO_2 emission. Other KfW programmes are also greatly helping to achieve the federal government's climate protection targets. We intend to build up on this in 2004.

With new commitments totalling EUR 11.5 billion due to some large transactions, KfW IPEX-Bank very clearly exceeded its own expectations, despite the enormous strain of the internal separation process. The share of financing in Europe was unusually high at around 80 %.

KfW Entwicklungsbank's volume of commitments was an excellent 20 % above the previous year's level, mainly due to the successful introduction of the FC promotional loan, which is composed entirely of KfW funds. To improve the contribution to development we are cooperating with increasing frequency with other international organisations engaged in development work, chief among them the European Union and the French development bank AfD. Our development promotion would not be complete without the valuable work of DEG. It provided strong promotion for the private sector in the developing and industrialising countries last year as well, with a volume of commitments that was 10 % up on the previous year.

And the SME sector? KfW Mittelstandsbank was able to keep its loan commitments stable compared with the activities of KfW and DtA in 2002, its very first year of operation, although the volume of investment by the German economy was declining. However, we are not content with offering loans to small and medium-sized firms, we need to change the structures in the financial market so that the financing conditions for SMEs are finally improved. That will not be possible overnight. To achieve this objective our financial products must make it easier for the banks to become more involved again in SME financing. By granting global loans we are enabling the banks to fund their SME loans more flexibly. KfW's very successful securitisation programmes, which make the risks on SME loans tradeable in the capital market, are also helping here. KfW has supported the development of the securitisation market in Germany. Last year we created a central instrument for the German capital market in the True Sale Initiative (TSI) which we launched together with 12 other banks. New stimulus and new products for Germany as a financial centre are also the aim of the Initiative Finanzplatz Deutschland (IFD), in which we are playing an active part, especially for SME finance. Finally, we were again one of the major participants in the international capital market, raising more than EUR 50 billion. That also benefited the two privatisation transactions of our holdings in Deutsche Post and Deutsche Telekom.

OUTLOOK.

At last light at the end of the tunnel? Yes, we are convinced that the years of stagnation are over and that economic revival will start in Germany as well. KfW's economists confirm this forecast by the economic research institutes, for our customers as well. However, caution is still needed. It is not yet certain that the upswing will last. Reforms in Germany must go on. The economy, society and the financial markets must accelerate the pace of their structural changes.

For us in KfW, too, the current dynamic of reform in Germany is an incentive to make our own contribution. Besides SME finance the education system is a central area for KfW Bankengruppe, and we intend to devote much energy to it this year. Without an efficient university system Germany's future capability is in question. We are also supporting the German economy to the best of our ability with specific promotional products. This year we want to show that KfW Bankengruppe has become an even more efficient and powerful promotional institute. A better promotional bank.

Frankfurt am Main, May 2004
Yours faithfully
The Board of Managing Directors

KFW BANKENGRUPPE IN 2003.

SURVEY OF THE MOST IMPORTANT EVENTS.

Merger with DtA: KfW packs more punch.

When two strong promotional banks complement each other so well, they can also join forces to achieve their aims. To support the Mittelstand, the engine of growth, even more forcefully it was decided to unite the promotional banks KfW and DtA with the aim of giving the German economy new and even stronger impulses through combined resources. Both credit institutions are to be firmly merged under the umbrella of

KFW IN JANUARY 2003.

KfW and DtA unite.

The course for the merger of DtA and KfW is set. Both institutions' promotional programmes are combined in KfW Mittelstandsbank (KfW SME bank).

Innovation Award for Cologne-based firm.

The 2003 Innovation Award of German Industry, sponsored by KfW, goes to the Cologne firm Solvent Innovation.

Successful result.

After 13 years the KfW Housing Promotion Programme for eastern Germany is closed. It was the biggest loan programme since KfW was founded.

KfW Bankengruppe (KfW banking group). The route for the merger was mapped already in January. Ministers Hans Eichel and Wolfgang Clement pushed this strategic decision together. At the start of the year an advertising campaign announces the imminent merger – where impulses for the future are required: where start-ups and the Mittelstand need support.

KfW Mittelstandsbank starts work.

As a promotional initiative of KfW and DtA, KfW Mittelstandsbank starts its own website and uploads a new application form on the Internet.

One year of reconstruction in Afghanistan.

One year ago KfW started its work in Kabul. It is operating in Afghanistan on behalf of the German federal government and on an assignment from the EU and the World Bank.

Fourth issue under the US Dollar Program.

KfW successfully issued the fourth Global Bond under its USD Program worth USD 3 billion.

More and more enterprises are showing the true colours of their environmental character. It was not least for this reason that the firm Claas invested in modernising its painting line. As the new coating method for machine parts offers extremely high-quality, environmentally safe corrosion protection, the world-renowned farming equipment manufacturer applied for a loan from KfW's Environmental Protection Pro-

KFW IN FEBRUARY 2003.

Out of concern for the environment.

In 2002 KfW promoted commercial investments in environmental and climate protection with EUR 871 million under its Environmental Protection Programme.

New KfW Award.

KfW launches its new contest "Europäisch Leben – Europäisch Wohnen", which addresses home builders with innovative ideas about building and living.

Global loans for EU accession countries.

KfW signs first global loan with ERSTEN Bank Hungary under the European Community's SME Financing Facility for EU accession countries.

gramme. This programme supports measures that contribute to improving the environmental balance. As a result, novel recycling systems reduce wastewater and solvent use in the new coating centre and state-of-the-art farming equipment is corrosion protected without harm to the environment. For where efforts are made to reduce pollution, KfW is available all along the line.

Only treasures for trash.

KfW IPEX-Bank participates in the financing of a waste incineration plant equipped with the most state-of-the-art technology in Baden-Württemberg.

Loan agreement signed with CAF.

The development bank Corporación Andina de Fomento (CAF) receives funds from KfW to finance infrastructure projects in the Andean countries.

Successful € Benchmark Programme.

The first global bond issued under KfW's € Benchmark Programme this year meets with very high demand.

Big in Japan: KfW's Uridashi bonds.

To enjoy people's confidence in the land of the rising sun, you must have a good reputation. As a venerable German enterprise KfW has already acquired high prestige. More than 55,000 retail investors have purchased KfW's first Uridashi Bond. These foreign-currency bonds issued by non-Japanese issuers are sold exclusively to Japanese retail investors. With a volume of USD 1 billion it is the biggest of its kind. KfW has

KFW IN MARCH 2003.

Billion-range Uridashi Bond.

More than 55,000 Japanese retail investors have purchased KfW's bonds and made them a success.

Joint securitisation.

Nord/LB and KfW conclude first securitisation of SME loans of a savings bank. The securitisation was combined with a KfW global loan.

One year of www.baufoerderer.de.

Over 250,000 people visited the Internet platform in its first year. The new service "Sachverständige" (Experts) gives more transparency to home building.

been issuing securities in the Japanese capital market for nearly 20 years and is now raising ten percent of its funding there. This benefits both: the German economy, which receives promotional loans at favourable terms on the basis of solid funding, and Japanese investors, who benefit from the best credit standing and high yields.

Global loan for Latvia.

KfW and the German Ministry for the Environment conclude an agreement on implementing a German-Latvian environment project – "Initiative for New Energy Systems in Homes".

Solar electricity for Moroccan villages.

KfW supports the installation of photovoltaic equipment in 6,200 Moroccan villages. It is the world's biggest solar electricity project of its kind.

World Water Forum in Kyoto.

KfW participates in World Water Forum in Kyoto. In the fight against poverty it promotes water projects around the world.

Jumpstart: KfW finances Cologne/Bonn Airport.

Whether or not an enterprise takes off to new heights depends very much on its will to reform. After the German government moved to Berlin the former Cologne/Bonn government airport faced great structural challenges. The operator took to the offensive. Besides expanding the lucrative cargo business it was able to attract two further airlines to operate from Cologne/Bonn airport. With success: passenger volume increased by

KFW IN APRIL 2003.

Airport on the up.

KfW refinances part of the investment in the terminal building of Cologne/Bonn airport, whose passenger numbers rose by 50% in 2003.

Joint bank initiative.

German banks, among them KfW, start "True-Sale Initiative" to promote a new segment of the securitisation market in Germany.

New KfW programmes now accessible.

The federal government and KfW sign the agreements on the new KfW programmes "Housing Modernisation 2003" and "Special Fund Growth Impulses".

50% and non-aviation business boomed. The airport was able to defend its position in a strongly competitive environment. KfW participated in the necessary expansion with loans for investment in new infrastructure and modernisation, including the connection of the airport to the rail network of Deutsche Bahn. The high-speed ICE train station will open in June 2004. So Cologne/Bonn will remain always on track.

Continued commitment to India.

KfW signs a loan agreement with the Indian development bank ICICI for the support of private infrastructure projects in India.

Peace for Burundi.

In Burundi KfW prepares projects for the reintegration of refugees and former soldiers.

First aid: KfW joins in the fight against SARS.

SARS is a human tragedy. But the outbreak of SARS was also a shock for the international community of nations. To effectively prevent the imminent spread of the epidemic KfW took swift action and energetically supported the Chinese government with an emergency aid programme. On behalf of the German government KfW made EUR 10 million available for the procurement of urgently needed x-ray machines

KFW IN MAY 2003.

Joining the fight against SARS.

KfW and the Chinese government sign a grant agreement for EUR 10 million for the financing of measures to fight SARS.

KfW Award.

This year's KfW Award "Europäisch Leben – Europäisch Wohnen" (European Life – European Home) is conferred on the winners in Berlin. It focused on "The Flexible Home".

3.9 million page views.

KfW's Internet offer is being used more and more intensively. The website posted a record 3.9 million page views in the preceding month.

and respiratory equipment as well as vital protective clothing for hospital staff treating SARS patients. It was an important, very unbureaucratic contribution to protecting the world's health. For in critical situations solidarity and help should spread faster than any disease.

500,000th loan commitment.

Since the Home Ownership Programme was started in 1996 KfW has committed 500,000 loans totalling more than EUR 24 billion.

Lively participation.

500 enterprises and investors took part in the German Equity Forum which KfW and Deutsche Börse held in conjunction with the State of Berlin.

Co-financing for partial privatisation.

In the city of Schwerin the publicly operated water supply and sanitation utility is being partly privatised. KfW has co-financed the establishment of the new company.

An energetic pursuit: KfW's 100,000 Roofs Solar Power Programme.

Great energy is being put into the promotion of solar electricity generation. So, for example, in 1999 KfW launched the 100,000 Roofs Solar Power Programme which is coming to a successful close in these days. Around 66,000 loans at favourable conditions were committed in the sum of EUR 1.7 billion. The ambitious goal of expanding the solar electricity capacity for domestic electricity generation of then 50 megawatts to

KFW IN JUNE 2003.

Closing in on the target.

By the end of the year the 100,000 Roofs Solar Power Programme will have reached its goal of 300 megawatts of newly installed photovoltaic capacity.

Restructuring the promotional programmes.

In the course of the merger with DtA, KfW has begun with the restructuring of the promotional offers to create greater transparency and efficiency.

Third joint securitisation.

KfW and Commerzbank securitise residential mortgage loan portfolios in the amount of EUR 1.5 billion on the PROVIDE platform.

currently 350 megawatts was reached early on. At the same time the investment costs of photovoltaic systems have fallen as the market expanded. This makes Germany the second largest producer of solar electricity after Japan, occupying a peak position ahead of other countries also in the development of solar electric technology. After all, future energy supplies critically depend on how strongly renewables are promoted today.

Joint exchange.

KfW and AfD meet with members of the French National Assembly for an exchange about current topics of development cooperation.

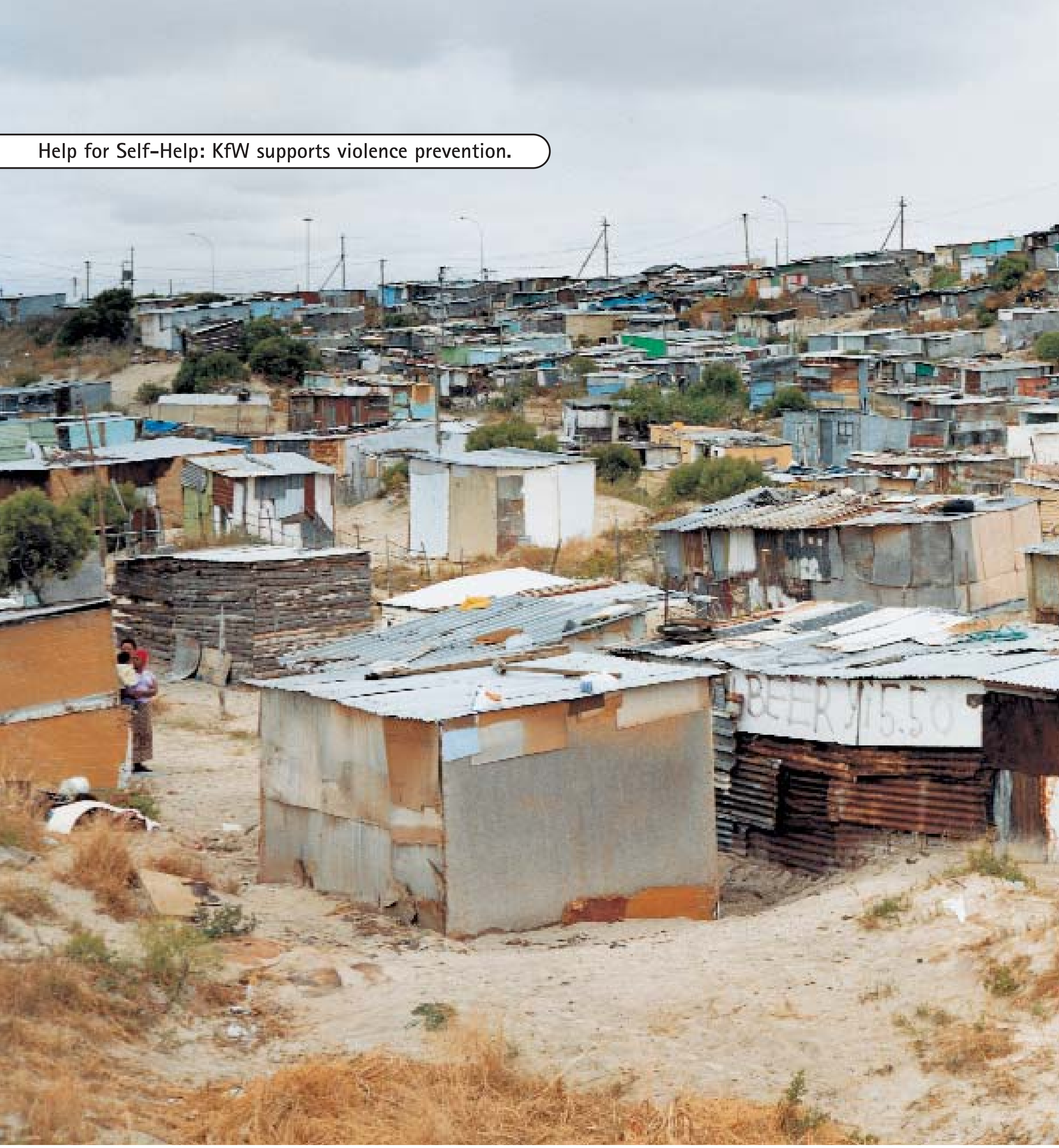
New energy for developing countries.

KfW Bankengruppe publishes its 2002 Annual Report on cooperation with developing countries: "New Energy for Development with a Future."

Strong placement.

KfW succeeds in placing a substantial portion of its eighth global bond of EUR 5 billion under the € Benchmark Programme with investors in Europe.

Help for Self-Help: KfW supports violence prevention.



Even ten years after the end of the apartheid regime in South Africa the divide between blacks and whites and between the poor and the rich is still a long way from being overcome. But there are signs of positive development. In Khayelitsha, a township near Cape Town, more and more people are taking the initiative to break through the vicious circle of poverty, AIDS and violence. In a model approach KfW is supporting the

KFW IN JULY 2003.

Overcoming violence.

KfW contributes to preventing violence in the poor settlement of Khayelitsha near the South African capital of Cape Town.

Merger of KfW and DtA.

The Bundesrat adopts the Promotional Bank Restructuring Act, which was already passed by the Bundestag (Lower House). This puts the seal on the merger of KfW and DtA.

True Sale Initiative.

KfW and 12 other banks sign the Letter of Intent for the True Sale Initiative and specify their commitment to Germany as a financial center.

violence prevention programmes that have emerged there, such as the Urban Agricultural Initiative. It is thereby making an important contribution to development on the basis of self-help. The first modest achievements have been made. What is even more encouraging: The people of Khayelitsha will be able to rely on financial assistance from Germany in the future as well.

New KfW Environmental Programme.

KfW's new Environmental Programme starts after the promotional offer of KfW and DtA is restructured. It complements the ERP Environmental and Energy Programme.

Strengthening the German economy.

More than 11,000 small and medium-sized enterprises benefit from KfW's investment loans in the first half of 2003.

Privatisation continues.

KfW issues bonds exchangeable into shares in Deutsche Telekom for the first time. With a volume of EUR 5 billion it is the biggest exchangeable bond in the world.

Transparency through strong brands: the new KfW Bankengruppe.

The merger of DtA into KfW makes the promotional landscape more transparent. KfW Bankengruppe has also reshaped its brand architecture. Five brands appear under the umbrella brand name KfW Bankengruppe: KfW Förderbank (KfW promotional bank) for environmental and climate protection, housing, municipal infrastructure and education, KfW Mittelstandsbank (KfW SME bank) for loans to small and medium-sized

KFW IN AUGUST 2003.

KfW's new branding architecture.

KfW has given itself a new branding architecture. Five new brands fulfil old and new functions under the umbrella brand name of KfW Bankengruppe.

Joint advice.

The Berlin advisory centres of DtA and KfW are joined together, pooling the advisory offers of the partners in the merger.

Merger legally valid.

The merger of KfW and DtA takes legal effect as per August 22, 2003. Accordingly, DtA is merged into KfW with retroactive effect as per January 1, 2003.

enterprises and start-ups, KfW Entwicklungsbank (KfW development bank) for economic and social progress in developing countries, DEG for the financing of private investments in developing countries, and KfW IPEX-Bank for tailor-made financings of exports and projects all over the world. Each brand addresses its own target group – and together they all stand for the values of KfW Bankengruppe.

Promotion of Chinese SMEs.

KfW promotes small and medium-sized Chinese enterprises with long-term and short-term loans.

Donor cooperation in Tanzania.

The European Commission places KfW in charge of administering the EU funds under a co-financing of water supply in Tanzania.

Integration is advancing.

The outstanding liabilities of KfW and DtA are integrated. The data processing system "Summit" is used as basis for the joint management.

Start preparations: Developing the potential from within.

Highly specialised enterprises in particular need a nest egg. KfW raised the financial thrust of the firm Spekon. The reputed supplier of the aviation industry has not only been able to expand its cooperation with DASA. It has also received additional orders from Airbus Industries for the installation of insulation blankets, floors and windows in the new Airbus A 380 and in other models. First, the firm had to invest. A KfW

KFW IN SEPTEMBER 2003.

The new "Unternehmerkredit".

KfW Mittelstandsbank launches new loan programme for investments by SMEs, self-employed professionals and start-ups: the "Unternehmerkredit", or "Entrepreneur Loan".

Agreement on cooperation.

Caisse des dépôts and KfW sign a cooperation agreement for the financing of infrastructure and transport projects in Europe.

German premiere in Rostock.

The Warnow Tunnel is opened to motorised traffic. The tunnel is the first privately financed transport infrastructure project in which KfW is involved.

"Unternehmerkredit" (entrepreneur loan) was used to finance a new company building and new production facilities and staff. Finally, a 30-strong Spekon team is working on the final assembly at Airbus Industries in Finkenwerder. Financing from KfW enabled the firm's business to take off smoothly.

Financing of container giants.

The Hapag-Lloyd container vessels are among the world's longest, measuring 320 metres from bow to stern. KfW finances their construction.

Protecting tropical forests.

KfW participates in Germany's ZDF TV symposium "Dschungelland wird abgebrannt" (Burning down the Jungle), which debates the chances of a new tropical forest policy.

Saving the Galápagos Islands.

KfW Entwicklungsbank helps Ecuador to preserve the Galápagos Biosphere Reserve. Energy supplies on the archipelago are going solar.

Channelling strength: KfW's International Project and Export Finance.

Large-scale projects need to be financially on course. In its export and project finance segment KfW was able to conclude three major financings for the Channel Tunnel Rail Link in England. The surface link between England and continental Europe will be extended as far as London's Waterloo Station. The first section from the Tunnel entrance to Fawkham Junction was opened already in September 2003. The second section

KFW IN OCTOBER 2003.

The Channel Tunnel Rail Link.

KfW IPEX-Bank concludes three financing transactions for the construction of a high-speed rail link from the Channel Tunnel to London.

New subsidiary named KfW IPEX-Bank.

KfW will pool its export and project finance business, which is to be hived off from 2008, in an independent subsidiary under the name of "KfW IPEX-Bank".

Over 100,000 dreams come true.

The Home Ownership Programme is still in high demand. More than 100,000 private households fulfil their dreams of an own home with the help of KfW.

between north Kent and London's St. Pancras station is scheduled for completion by 2007. From then on Eurostar trains will travel regularly between Paris/Brussels and the UK capital. It is not least the KfW IPEX-Bank's financing that closes the line between the European capitals.

Meister-BAföG is well received.

KfW extends the 200,000th loan since the start of the "Meister-BAföG" (financial assistance for master craftsmen trainees) in 1996, surpassing the EUR 1 billion mark.

KfW supports debt relief initiative.

KfW assigns a staff member to East Africa to implement programme financings for national poverty reduction strategies under the debt relief initiative.

Ninth € Benchmark Bond.

KfW concludes its € Benchmark Programme for this year with a three-year bond. The bond meets with broad investor demand in the market and is heavily oversubscribed.

Door opener: Restoring old buildings.

New doesn't always mean better. Without well-preserved old buildings, home décor would be lacking an important facet. For this reason KfW is supporting the preservation and rehabilitation of existing buildings with low-interest loans under its Housing Modernisation Programme 2003. In this programme KfW has so far committed 50.000 loans at favourable conditions with an overall volume of EUR 1.7 billion. It has given many

KFW IN NOVEMBER 2003.

50,000 loan commitments.

KfW committed 50,000 loans for the modernisation and rehabilitation of existing homes under the KfW Housing Modernisation Programme 2003.

First securitisation in the Netherlands.

NIB Capital Bank is the first Dutch bank to securitise residential mortgage loans of one billion euros through KfW's securitisation platform PROVIDE.

Record participation.

Deutsche Börse and KfW Mittelstandsbank hold the 2003 German Equity Forum in which 1,500 capital market representatives participate.

homeowners the chance to preserve or reinterpret the substance or character of traditional residential buildings by revamping or modernising them. It is not without reason that renovated old buildings are preferred residential environments. For most builders and renovators, solid financing from KfW is much more than a homecoming exercise.

Help for Southeast Europe's financial sector.

KfW has promoted the development of the financial sector in Southeastern Europe on an assignment from the EU with around EUR 120 million since 1995.

Afforestation projects in China.

KfW has financed forestry projects in China with EUR 145 million since 1993. This assistance centres on protecting natural resources through modern management methods.

KfW on site.

KfW Entwicklungsbank expands its local presence and opens offices in Senegal and Mozambique.

High expectations: the press is here in five minutes.

When a company wants to change, what it needs most is financial flexibility. KfW Mittelstandsbank therefore informed the public of its new programme at a press conference in Frankfurt. From March 1, 2004 start-ups, young enterprises as well as established SMEs may apply for subordinated KfW loans under the name "Unternehmerkapital" (Entrepreneur Capital). The loans are similar to equity since usual banking

KFW IM DECEMBER 2003.

The new "Unternehmerkapital".

KfW Mittelstandsbank presents its new mezzanine product family: Unternehmerkapital.

First action programme of IFD.

The "Initiative Finanzstandort Deutschland", or IFD, presents its programme for strengthening the financial location of Germany. KfW Bankengruppe is co-initiator of the IFD.

New business model.

The 13 banks of the True Sale Initiative present details of their joint business model for developing the German true sale securitisation market.

collateral is not required and so the equity ratio is not reduced. The new KfW programme "Unternehmerkapital" helps to keep access to capital open to SMEs even after the phase of establishment. This way it gives them more scope to improve their equity capital.

Increased lending volume.

KfW Förderbank and the German federal government increase the Special Fund "Growth Impulses" for structurally weak regions.

Second Multi-Seller securitisation.

DG HYP, DZ BANK and KfW place a second multi-seller securitisation in the capital market via KfW's PROVIDE securitisation platform.

Starting shot for KfW IPEX-Bank.

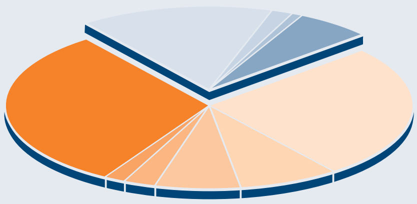
KfW's export and project finance segment positions itself as a bank of its own. The new KfW IPEX-Bank presents its business model to the public.

INVESTMENT FINANCE – KFW MITTELSTANDSBANK AND KFW FÖRDERBANK.

IMPORTANT STIMULUS FOR SMES AND PRIVATE HOUSING.

INVESTMENT FINANCE BY KFW MITTELSTANDSBANK AND KFW FÖRDERBANK.

To support the German and European economies KfW committed a volume of EUR 58.6 billion (including securitisations) in 2003, which was an increase of 18 % from the previous year. The volume of promotion by KfW Mittelstandsbank amounted to EUR 13.8 billion and that of KfW Förderbank to EUR 44.9 billion.



Total volume of investment finance 2003: EUR 58.6 billion

Investment Finance in 2003
EUR billion[1)]

KfW Mittelstandsbank	**13.8**
Debt financing	9.0
Mezzanine financing	1.0
Equity financing	0.3
Guarantees and securitisations	**3.5**
KfW Förderbank	**44.9**
Housing investments	15.4
Municipal infrastructure	4.7
Environmental investments	4.0
Global credit lines to special credit institutions of the federal states	1.5
Education	0.8
Guarantees and securitisations	**18.4**

1) Differences due to rounding.

Promotion of the German and European Economy
Commitments in EUR million[1]

Programmes	2002	2003	Purpose
I. KfW Mittelstandsbank	**17,956.0**	**13,796.7**	
1. Promotional loans granted by KfW Mittelstandsbank	**10,164.3**	**10,312.3**	
a) Dept financing	9,461.8	9,013.0	
Unternehmerkredit	4,307.3	3,485.3	Investment loans for business start-ups and small and medium-sized enterprises
Unternehmerkredit – Working Capital	128.5	126.0	Working capital finance for start-ups and small and medium-sized enterprises
Unternehmerkredit – Outside Germany	60.0	35.3	SME finance outside Germany
Start-up and Growth Financing	1,135.2	993.7	Financing for start-up and consolidation measures in cooperation with special credit institutions of the federal states
Start-up and Growth Financing – Working Capital	48.5	53.9	Working capital finance for start-ups in cooperation with special credit institutions of the federal states
KfW Programme for Acquisition Finance	180.6	223.3	Financing for company takeovers
StartGeld	120.5	116.6	Financing for business start-ups and self-employed professionals
MicroLoans	10.7	32.0	Financing for business start-ups and self-employed professionals
KfW Special Flood Relief Programme	8.9	25.6	Financing to cover expenses of repairing damages caused by the flooding in August 2002
Global Loans for Commercial Enterprises	1,300.0	2,000.0	Global loans to commercial banks to finance small and medium-sized enterprises
Global Loans for SMEs – Outside Germany	1,060.0	1,211.2	Global loans to promotional and commercial banks in Europe
ERP Start-Up Programme	412.7	234.1	Financing for business start-ups, self-employed professionals, relocations and consolidation measures
ERP Regional Promotion Programme	325.3	198.2	Investments in the joint task areas (GA) "Improvement of the Regional Economic Structure"
ERP Innovation Programme (Loan Variant)	258.9	218.1	Funding for market-oriented research and development and market introduction of innovations
ERP Loans for Guarantee Banks	65.8	53.0	Funding to provide guarantee banks with financial resources
Other loans	38.7	6.9	Special loans, loans for compensatory measures, and loans for pilot project "loans against debt certificates"
b) Mezzanine financing	333.5	988.1	
KfW Capital for Work Programme	21.8	744.7	Support in reducing unemployment
ERP Equity Capital Assistance Programme	306.2	235.9	Quasi-equity capital to support start-ups, self-employed professionals and consolidation measures
ERP Equity Capital Assistance Programme – Flood Relief	5.5	7.5	Quasi-equity capital to cover expenses of repairing damages caused by the flooding in August 2002

[1] Differences due to rounding.

(cont.)

Programmes	2002	2003	Purpose
c) Equity financing	**369.0**	**311.1**	
KfW Participation Fund (East)	3.3	9.8	Participations in companies in the eastern federal states
KfW Venture Capital Programme (Equity Fund Finance)	90.6	122.7	Participations in companies via venture capital funds financed by KfW
KfW Private Equity Programme	2.0	23.5	Financing for company takeovers
KfW/BMWA Technology Participation Programme	39.0	8.1	Participations in small technology enterprises
Equity Capital for Small Technology Enterprises	32.8	19.7	Equity capital for small technology enterprises
Technology Participation – Early Stage	5.3	6.6	Equity capital for newly founded technology enterprises
tbg Consolidation and Growth Fund East	9.8	1.6	Equity capital for companies in the eastern federal states
Other tbg/gbb programmes	32.2	8.9	FUTOUR, tbg Technology Participation Programme, VC funds and separate gbb programme
ERP Participation Programme	133.7	106.8	Company participations by private equity investment firms
ERP Innovation Programme (Equity Variants)	20.3	3.4	Equity finance for small and medium-sized enterprises
2. Guarantees and securitisations KfW Mittelstandsbank	**7,791.7**	**3,484.4**	Securitisation of SME loans
a) Securitisation – PROMISE	**7,775.6**	**3,458.7**	
b) Guarantees for promotional loans	**16.1**	**25.8**	
II. KfW Förderbank	**31,608.2**	**44,851.5**	
1. Promotional loans granted by KfW Förderbank	**19,340.5**	**26,452.7**	
a) Environmental investments	**3,696.0**	**4,020.8**	
KfW Environmental Protection Programme	1,506.0	1,180.8	Environmental protection projects in Germany
KfW Environmental Protection Programme – Outside Germany	35.0	8.7	Environmental protection projects outside Germany
ERP Environmental Protection and Energy Saving Programme	1,672.3	2,121.3	Environmental protection projects in Germany
KfW 100,000 Roofs Solar Power Programme	396.0	650.2	Photovoltaic systems
KfW Programme to Promote Renewable Energies	86.7	59.7	Measures to encourage the use of renewable energies
b) Housing	**10,346.3**	**15,442.2**	
KfW Housing Modernisation Programme I	5.3	1.9	Modernisation and repair of housing in the eastern federal states
KfW Housing Modernisation Programme II	1,072.1	2.2	Modernisation and repair of housing in the eastern federal states

(cont.)

Programmes	2002	2003	Purpose
KfW Housing Modernisation Programme 2003	–	2,126.6	Modernisation and rehabilitation of housing
KfW Home Ownership Programme	6,378.8	7,594.8	Construction and acquisition of owner-occupied housing
KfW Special Flood Relief Programme	15.0	11.0	Financing to cover the expenses of repairing the flood damage to building structures
KfW CO_2 Reduction Programme	711.0	851.8	Investments in reducing CO_2 emissions and saving energy in residential buildings
KfW CO_2 Building Rehabilitation Programme	754.3	1,183.9	Financing for packages of measures to reduce CO_2 emissions in old residential buildings
Global loans for the housing industry	1,409.8	3,670.0	Global loans to commercial banks to finance housing property
c) Municipal infrastructure	**3,035.5**	**4,682.7**	
KfW Infrastructure Programme	3,033.5	1,169.3	Municipal infrastructure measures
KfW Infrastructure Programme Special Fund "Growth Impulses"	–	3,361.6	Municipal infrastructure measures
Sewage Disposal Saxony-Anhalt	2.0	1.8	Sewage disposal projects in Saxony-Anhalt
Global loans for infrastructure – Outside Germany	–	150.0	Global loans to promotional and commercial banks in Europe
d) Education	**712.7**	**777.9**	
AFBG Loans (Meister BAföG)	193.2	222.2	Further vocational training for skilled workers
BAföG Government Loan	459.2	466.7	Financing for training and university studies for students from low-income families
BAföG Bank Loan	19.6	23.2	Supplement to the BAföG government loan
Educational Loan	40.0	65.8	Training and studies for students in higher semesters regardless of parent income
ERP Apprenticeships	0.7	–	Measures to create new positions for apprentices
e) Global credit lines to special credit institutions of the federal states	**1,550.0**	**1,529.1**	**Global loans to refinance the special credit institutions of the federal states**
2. Securitisations KfW Förderbank – PROVIDE	**12,267.7**	**18,398.8**	**Securitisation of mortgage loans**
Total promotional lending	**49,564.2**	**58,648.2**	
of which			
Promotional loans (total)	**29,504.8**	**36,765.0**	
KfW programmes	26,303.4	33,587.0	
ERP programmes	3,201.4	3,178.0	
Guarantees and securitisations	**20,059.4**	**21,883.3**	

INCREASE FOR MANUFACTURING AND THE CRAFTS.

With a share of nearly 35 % loan commitments to the manufacturing industry were the most important sector for KfW Mittelstandsbank. This was an increase of 2.5 % for this sector over the previous year. Service industries like trade or health and social security, on the other hand, registered slight falls.

The share of the volume of loan commitments given to the crafts rose from 10 % to 11 % in 2003. After several years of declining demand the craft firms increased their share of KfW Mittelstandsbank promotional loans for the first time again, showing that even in difficult economic times the craft sector is investing. So promotional loans are an important stabilising factor in the segment of small and medium-sized enterprises.

Loan Commitments by Sector

In %

Economic sector/industry	KfW Mittelstandsbank[1] In %		KfW Förderbank[2] In %	
	2002	**2003**	**2002**	**2003**
Agriculture and forestry	0.9	0.8	0.5	0.7
Mining and non-metallic minerals extraction	0.4	0.5	0.1	0.0
Manufacturing	32.1	34.6	4.2	2.6
Energy and water supply	0.3	0.4	15.7	15.8
Construction	5.9	5.4	0.6	0.2
Wholesale and retail, vehicle repair and maintenance	20.6	18.6	0.6	0.3
Hotels and catering	4.7	3.9	0.1	0.1
Transport and communications	3.4	3.4	0.6	0.3
Banking and insurance	1.0	0.9	0.0	0.0
Property and housing	2.8	3.5	7.2	5.9
Services mainly for businesses, property, housing, leasing of movable property	8.8	7.4	0.8	0.5
Education	0.1	0.1	0.1	0.0
Health care, veterinary and social services	12.4	10.3	3.1	2.6
Other public and personal services	6.0	5.0	14.6	16.9
Private households	0.6	4.4	51.9	54.0
Non-specified	0.0	0.7	0.0	0.0
Total	**100.0**	**100.0**	**100.0**	**100.0**
of which: crafts	10.2	11.2	0.3	0.3

[1] KfW Mittelstandsbank not incl. tbg and global loans.
[2] KfW Förderbank not incl. education finance, global loans and global credit lines to special credit institutions of the federal states.

PRIVATE HOUSEHOLDS MOST IMPORTANT CUSTOMER SEGMENT FOR KFW FÖRDERBANK.

Most of the promotional loans given by KfW Förderbank go to private individuals, who account for a share of 54 %. That is mainly due to the high value attached to promoting investment in housing. Private households are the chief beneficiaries of this policy.

The main regional focus of the promotion was, as in earlier years, in the large federal states of North Rhine-Westphalia, Bavaria and Baden-Württemberg. That applies to loans from both KfW Mittelstandsbank and KfW Förderbank. These three states alone accounted for more than half of total loan commitment.

In the new federal states loan commitments fell slightly from the previous year. But the new states, including Berlin, are still of great importance in KfW promotion. Their share of the total volume of the programmes run by KfW Mittelstandsbank and KfW Förderbank is just under 16 %. So it is still a good one percentage point above their share in total economic output (GDP).

INCREASE IN ENVIRONMENTAL AND CLIMATE PROTECTION PROMOTION.

KfW offers a broad range of promotional programmes for investment in the environment and climate protection. It covers almost all the important areas: the producing sector, municipal environmental infrastructure, the promotion of renewable energies, the existing housing stock and new housing. In 2003 KfW Mittelstandsbank and KfW Förderbank committed a total of EUR 7.4 billion for environmental and climate protection, which is an increase of 21 % from the previous year.

KFW CARBON FUND.

In the global economy ecological compatibility plays an ever more important role besides economic benefit. KfW is aware of that responsibility. It is planning to set up a climate protection fund (KfW Carbon Fund), which will combine economically sensible action with ecological need. It will be based on the Kyoto Protocol and emissions trading, which will start in the EU in 2005.

The KfW Carbon Fund is for companies in Germany and other EU countries that expect to have to reduce their emissions under the EU emissions trading system and want to fulfil these obligations at favourable cost by using emissions credit certificates from climate protection projects. KfW will acquire these certificates in trust for the companies participating and transfer them proportionately to the companies. The aim is for the Fund to have a volume of EUR 50 million. By creating a fund it will be possible to diversify the risk through portfolio building, the companies do not have to build up extensive capacities of their own and the Kyoto mechanisms can be used also with smaller amounts. At the same time the KfW Carbon Fund will help climate protection projects to be realized that could not be carried out profitably without the additional income from the sale of the emission certificates.

Commitments in 2003 by Federal State

EUR million

Federal State	KfW Mittelstandsbank	KfW Förderbank[2]			Total
		Environment	Housing	Infrastructure	
Baden-Württemberg	1,477	373	1,494	580	3,923
Bavaria	1,039	529	1,929	800	4,297
Bremen	86	17	169	69	341
Hamburg	143	11	301	401	856
Hesse	466	95	792	330	1,682
Lower Saxony	677	684	1,281	292	2,934
North Rhine-Westphalia	1,499	744	3,248	973	6,464
Rhineland-Palatinate	316	163	601	134	1,215
Saarland	76	9	129	27	241
Schleswig-Holstein	274	241	463	88	1,066
Western federal states	**6,054**	**2,865**	**10,406**	**3,694**	**23,019**
Berlin	124	1	341	329	795
Brandenburg	134	475	280	72	960
Mecklenburg-Western Pomerania	99	114	180	40	433
Saxony	268	74	248	231	821
Saxony-Anhalt	184	390	176	109	859
Thuringia	164	87	141	58	449
Eastern federal states	**973**	**1,140**	**1,366**	**839**	**4,318**
Other[1]	39	7	0	0	46
Total	**7,066**	**4,012**	**11,772**	**4,533**	**27,383**

[1] KfW Mittelstandsbank not incl. global loans.
[2] KfW Förderbank not incl. education finance, global loans and global credit lines to special credit institutions of the federal states.

STRENGTHENING THE LABOUR MARKET.

KfW promotion also helped to strengthen the labour market in 2003. Promotional loans from KfW Mittelstandsbank and KfW Förderbank for manufacturing, the housing sector and municipal infrastructure (without global loans) enabled more than 1.5 million jobs to be made more competitive and less vulnerable to crisis, and created just under 56,000 new jobs, either directly or indirectly through demand effects, last year.

REDESIGNED AND OPTIMIZED – SME PROMOTION OF KFW MITTELSTANDSBANK.

The financial markets are currently undergoing enormous structural change. As a result the financing conditions for the German SME sector have changed within a short time, more comprehensively and incisively than in decades before. Classical financing with borrowed funds is increasingly coming under pressure and alternative forms of financing are gaining in importance. For many small and medium-sized firms improving their equity capital ratio is an urgent task.

SME promotion also has to take the changing functional principles of the financial market into account, and wherever possible it must help to shape these to support SMEs. It needs to combine all its forces and direct its products and processes to the changing structures and financing requirements of small and medium-sized firms, with an eye to the future.

In this regard the merger of KfW and DtA was substantial progress. It has greatly increased the impact of SME promotion. The necessary new legal regulations were passed quickly, and the Promotional Banks Restructuring Act came into force in August 2003. This enabled the two banks to be merged in retrospect from 1 January 2003.

Since then, all the primary financing and advisory offers for start-up businesses, innovators and SMEs have been available on a single platform, KfW Mittelstandsbank. This offers considerable advantages:

- Start-up businesses, SMEs and handling banks will in future only need contact with one partner.
- The procedures can be simplified and accelerated.
- Overlaps in the programmes are eliminated.
- The rage of products offered will be complete and transparent, from a single source.
- Gains in efficiency directly benefit SME promotion.

The offer of financing from KfW Mittelstandsbank will comprise loans, mezzanine financing and private equity. It is designed to offer a suitable product for any kind of capital requirement a company might have.

A new, slim basic loan programme was already introduced on 1 September 2003, the "Unternehmerkredit" (entrepreneurial loan). It combines the main components of the earlier KfW Mittelstandsprogramm and the DtA Start-up Programme and enables every kind of investment to be financed, from building through the purchase of machinery to the provision of operating funds and advanced staff training courses.

The new programme structure is also operating in mezzanine financing. With the product family "Unternehmerkapital" (entrepreneurial capital) KfW Mittelstandsbank is offering a broad range of subordinate loans. These are loans for which the companies do not have to provide any security. In the event of insolvency they are only serviced after all the normal creditors' claims have been dealt with. Other crucial features of subordinate loans are their long terms and secondly, repayments only start towards the end of the term. That gives the companies scope to improve their equity capital cover in the meantime.

Altogether, subordinate loans perform a quasi-equity function. They improve the financing structure and so create additional scope for the company to borrow.

The "Unternehmerkapital" family of products consists of three separate building blocks that are designed to meet the special financing needs of start-up businesses, companies in their initial growth phase and established firms.

The third pillar of the promotion by the new KfW Mittelstandsbank is the equity capital programmes. This product range will be redesigned during 2004. It is even now evident that the early phase promotion and the development of a new equity capital market segment will be particular focal areas of SME promotion.

In addition, special programmes to meet particular needs will still be available, for example to promote setting up a new business or innovations and takeovers.

KfW's offer of finance will be supplemented by a broad range of advisory and information services. The merger of KfW and DtA has enabled KfW Mittelstandsbank to offer a complete range of advisory services for start-up businesses and SMEs. Complete in this context means that KfW Mittelstandsbank not only gives information about its promotional funds, it also helps its SME customers to acquire well-founded business skills and supports them in crisis situations. As a further service it offers Internet-supported platforms for the provision of business ideas, contact with other companies and venture capital.

KFW MITTELSTANDSBANK.

The main focus of promotion by KfW Mittelstandsbank is on start-up businesses, innovators and small and medium-sized firms. They are the main contributors to growth, competitiveness and employment in Germany.

To support German and European SMEs KfW Mittelstandsbank provided promotional funds totalling EUR 13.8 billion in 2003 (including securitisations). Specifically to promote investment it committed loans totalling EUR 10.3 billion (including global loans). Despite the weaker cyclical activity and the clear fall in net investment in fixed assets in the economy as a whole the loans given exceeded the previous year's level.

HIGH GROWTH IN MEZZANINE FINANCING.

The share of classical loan financing in the total volume was EUR 9.0 billion (including global loans). As before this accounted for the greater part of promotion.

The growing importance of quasi-equity forms of financing is evident. While loan financings have fallen by about 5% mezzanine financing by KfW Mittelstandsbank has tripled. It was just under EUR 1 billion. Commitments for equity financings have fallen by 16% to EUR 0.3 billion. One reason for this is that demand in the early phase segment is still weak.

START-UPS – A CENTRAL AND EXPANDING FIELD OF PROMOTION.

The transition to the knowledge-based information and service society offers new possibilities and chances for start-ups. Business founders are a central target group for KfW Mittelstandsbank. The bank supports them with customized promotional programmes and specific advice.

Business founders face special problems in financing. Most of them have little start-up capital and they cannot produce data on the company's performance, like balance sheets. Often their chances of success are hard to estimate. Moreover, measured by the relatively low amount of funding they need they involve fairly high costs for the banks. As a consequence, banks and savings banks are reluctant to finance new businesses.

This is where KfW promotion for start-up businesses can help, especially with products like StartGeld and MicroLoans. Releasing the customer's bank from a large part (80%) of the liability and a handling charge make it attractive again for the banks to finance even very small projects. Both promotional programmes also support a move into a second part-time source of income, which is also a growing trend. In addition, business founders can also utilize all the other offers of promotion, like debt capital, mezzanine capital and equity capital. Of course they may also benefit from KfW Mittelstandsbank's information and advisory services.

At around EUR 1.6 billion 18 % of the volume of commitments under KfW Mittelstandsbank's lending programmes went to business start-ups in 2003. In relation to the number of commitments two fifths of SME loans, that is, just under 18,500, were for business start-ups.

LESS DEMAND FOR INNOVATION AND EQUITY FINANCE.

New products, services and procedures are advancing technical progress and so securing permanent jobs. Innovations are one of the driving forces of structural change in an economy.

However, small and medium-sized companies in particular cannot fully exploit their potential for innovation, as they have considerable disadvantages in obtaining financing owing to their size. KfW promotion aims to compensate for these disadvantages and makes it easier for small and medium-sized companies to invest in their own research and development activities. So the programmes of KfW Mittelstandsbank are making an important contribution to strengthening the innovative capacity of the German economy.

Equity capital is particularly suitable to satisfy the great need for capital in young, technology-based firms, which generally carry considerable risk. Besides the various KfW programmes to finance equity capital tbg offers special private equity for technology-based firms. As co-investor tbg generally acts as dormant partner in young high-tech firms, providing finance particularly in the seed and start-up phase.

With its equity capital promotion KfW Mittelstandsbank helps small and medium-sized firms to increase their equity capital ratio. In view of the changes in the financial markets closing the equity capital gap is a crucial task for KfW.

The development in the private equity market in Germany was initially restrained in 2003. Only in the second half of the year were there signs that the situation would bottom out in the course of the year. The development in the market was reflected in the low level of demand for innovation and equity finance. The volume of commitments fell from the previous year and amounted to EUR 530 million altogether.

SME PROMOTION IN WESTERN EUROPE INTENSIFIED.

KfW successfully put its European SME promotion on a broader basis last year. Now banks in almost all EU member states have received global loans from KfW.

The main focus of SME promotion in other western European countries was in the Anglo-Saxon area in 2003. Of the total commitments of EUR 1.2 billion British and Irish banks received EUR 800 million, giving SMEs in Great Britain and Ireland access to finance at favourable conditions.

Combining forces at the European level was the aim of a structured transaction in Sweden. Together with the EIF KfW eased the equity charge of two Swedish banks by combining the securitisation of SME loans with a global loan. The Swedish savings banks will use the global loan to refinance new promotional loans for small and medium-sized firms.

REFINANCING OF CENTRAL AND EASTERN EUROPEAN PROMOTIONAL AND COMMERCIAL BANKS CONTINUES.

Since the refinancing of loan programmes of local promotional and commercial banks in 13 Central and Eastern European countries was started total commitments made so far amount to EUR 808 million. These loan programmes are primarily designed to support small and medium-sized enterprises.

THE EU SME FINANCING FACILITY.

The Programme to Promote SMEs in the EU Accession Countries in Central and Eastern Europe was already launched at the end of 2000, in conjunction with the Council of Europe Development Bank (CEB) and the European Commission. It was successfully continued in 2003 as well.

Further funds will be made available for this early in 2004. The programme supports loans granted by KfW/CEB to a total of EUR 263 million with grants from the European Commission, which amount altogether to EUR 51 million. The aim of the programme is to strengthen lending by local banks to small and medium-sized firms. As well as technical support for their commitment to SME finance these banks also receive further EU grants which can be used to cover higher credit risks and higher handling expenses.

By the end of 2003 KfW had signed contracts with partner banks in the ten eastern European EU accession countries and Turkey for a lending volume totalling EUR 271 million, with supplementary grants from the EU budget of EUR 43.8 million.

CLOSE COOPERATION WITH THE EUROPEAN UNION.

European promotional funds are to be made more accessible for German SMEs. For that reason KfW is cooperating closely with European partners, chiefly the European Investment Bank (EIB), the European Investment Fund (EIF), the Council of Europe Development Bank (CEB) and the European Commission.

For example, KfW utilizes the financing instruments set up by the European Commission under its programme for enterprises, which will run for several years (2001–2005). The programme mainly supports small and medium-sized firms in the member states. With the guarantees extended under this programme, provided by the EIF under a mandate from the European Commission, KfW can greatly reduce the risk it bears on loans to business start-ups and small firms, and this enables the bank to provide efficient promotion for this target group by offering loans at favourable conditions.

KfW not only includes European funds in its promotional work, it also helps to design future EU promotional programmes. New European promotional initiatives and instruments for small and medium-sized firms are often based on "best practice" experience in the member states. In order to incorporate its special promotional know-how KfW participates in working and experts groups set up by the European Commission. At the same time it profits from new approaches in other EU countries. Together with other EU promotional banks KfW has put its experience into the development of new European approaches in the areas of research and innovation promotion.

EXISTING NETWORKS EXPANDED.

In 1999 KfW and promotional banks in other EU member states set up the Network of European Financial Institutions for SMEs (NEFI). The network has now become established as an international partner for corporate finance, and in that capacity it is consulted by the European Commission and the European Parliament. One of NEFI's chief aims is to design and further develop the promotional framework conditions for SMEs in Europe in dialogue with the European institutions.

Parallel to the coming EU enlargement NEFI created the conditions for its own enlargement through the acceptance of new partner banks in the accession countries the Czech Republic, Slovakia, Hungary and Latvia. Their formal entry will be in May 2004.

SECURITISATIONS OF KFW MITTELSTANDSBANK.

Around 18,000 promotional loans to small and medium-sized firms for a total of EUR 3.5 billion were securitised in 2003 (2002: EUR 7.8 billion) through the PROMISE securitisation platform.

Since the platform was introduced at the end of 2000 SME loans totalling around EUR 17 billion have been securitised in 12 transactions. Hence KfW has helped to ensure that lending to SMEs is supported by the banks and the capital market, as an increasingly liquid capital market is forming. A growing volume of SME loans was made tradeable on the capital market, and a separate German asset class has become established. This ABS product is now well known and it has persuaded a large number of investors, particularly international investors, to enter into risks on SME loans.

KfW's aim is to widen the scope for new lending by flanking its programme loans with the PROMISE securitisation platform. The banks no longer need to hold their long-term loans to the target promotion group – just like their other types of loans – with all the risks for the full term, but they can securitise them on the capital market reliably and cost-efficiently at a suitable point in time. New loans can then be granted without the banks having to take a higher risk content in their portfolios in the long term. A growing number of banks see this "tradeability" as an essential condition for further lending.

Promoting access to the securitisation market for regionally concentrated banks with rather smaller portfolios is also an aim for KfW. The bank is working on innovative and customized ideas especially for these target groups, using special solutions and multi-seller products. KfW is also cooperating with European banks because there are similar needs in their countries, and an efficient and liquid securitisation market for SME risks ultimately needs a European dimension.

TRUE SALE INITIATIVE.

As experience with synthetic securitisation has been positive KfW has decided also to support the development of a true sale securitisation market in Germany, and so help develop a new pillar of SME finance.

In view of the developments in the trade tax legislation five German banks and KfW created a True Sale Initiative in January 2003, in short TSI. The aim is to accelerate the development of a broad German securitisation market. The banks' common interest was expressed by signing a Memorandum of Understanding in April 2003.

The Initiative aroused so much interest in the German banking scene that by the time the Letter of Intent was signed on 9 July 2003 twelve banks altogether had joined KfW in the True Sale Initiative.

In intensive cooperation with market participants, supervisory authorities, accounting firms and specialised lawyers a model for True Sale securitisations was worked out which is market-oriented and in line with German legislation. The concrete structure was agreed by all thirteen banks on 13 December 2003.

KfW was able to incorporate its specialized knowledge of both securitisation and the SME and housing sectors in this cooperation with other banks.

KFW FÖRDERBANK.

KfW Förderbank operates mainly in environmental and climate protection, the promotion of home ownership, housing modernisation, municipal infrastructure finance and education and training. In 2003 the financing volume provided by KfW Förderbank amounted to EUR 44.9 billion, including securitisations. This was more than 40 % above the previous year's level.

PROMOTION OF HOME OWNERSHIP, CO_2 REDUCTION IN RESIDENTIAL BUILDINGS AND HOUSING MODERNIZATION UP BY 50 %.

KfW committed promotional loans totalling EUR 15.4 billion in 2003 to promote the housing sector and climate protection in the existing building stock. Contrary to the continued decline in investment in housing construction in the economy as a whole promotional commitments rose by around half from the previous year.

136,000 OWNER-OCCUPIED HOUSES AND APARTMENTS FINANCED.

Above all, demand for promotional loans to build or buy homes rose clearly, with commitments at EUR 11.3 billion in 2003. Of these EUR 3.7 billion were global loans to banks and savings banks to refinance their promotional loans to customers.

Promotion of the purchase of houses and apartments out of the existing stock has grown appreciably in importance. In 2003 half of the promotional loans committed under the KfW Home Ownership Programme were to purchase existing houses or apartments. So this promotion is making an important contribution to the creation of home ownership out of the existing housing stock. Altogether KfW financed the purchase or construction of 136,000 houses or apartments under its Home Ownership Programme in 2003.

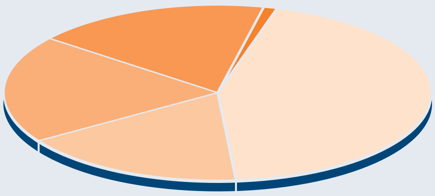
CLEAR EXPANSION OF THE KFW CO_2 BUILDING REHABILITATION PROGRAMME.

At EUR 2 billion loan commitments to promote energy saving and climate protection in housing under the KfW CO_2 Building Rehabilitation Programme and the KfW CO_2 Reduction Programme increased by about one third from the previous year's level in 2003.

The expansion of the KfW CO_2 Building Rehabilitation Programme largely contributed to this result. A new element in the promotion was a partial debt release of 20 % for energy modernisation in old buildings to bring them up to low-energy housing standard, the exchange of heating systems as a single measure and the construction or first-time acquisition of KfW energy-saving houses.

Achieving the low-energy housing standard for the existing stock is an important aim of the new promotion. Incentives are being created to rehabilitate old housing as well. In future these buildings should not consume more energy than new modern buildings. In 3,248 of the old apartments promoted the low-energy standard was achieved and rewarded with release from part of the debt.

Carrying out this ambitious rehabilitation on a broad basis is an important step towards achieving an ecologically sustainable and climate-friendly energy supply. The new possibilities for promotion also set further accents for the equipment of old buildings with modern heating systems and the use of renewable energies.



Total loan commitments in 2003: EUR 851.8 million

Purpose of Loans in the KfW CO_2 Reduction Programme 2003

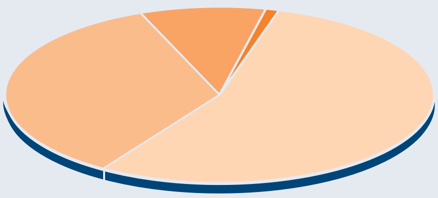
Thermal insulation of external walls, roofs, cellar ceilings, windows	44.2 %
Condensing or low-temperature boilers	17.1 %
"passive houses", KfW low-energy houses	19.9 %
Renewable energies	17.8 %
Long-distance and local heating systems, combined heat and power systems	1.0 %

HOUSING MODERNISATION INCREASES ECONOMIC ACTIVITY AND SUPPORTS THE LABOUR MARKET.

In April 2003 KfW Förderbank launched the 2003 Housing Modernisation Programme. It was set up under the federal government's concept to strengthen domestic demand, and it helps to improve the housing stock and revive investment in construction in Germany. In 2003 EUR 2.1 billion out of the total of EUR 8 billion earmarked for these promotional loans had already been committed. The loans were used to finance rehabilitation and modernisation investments in 210,000 homes.

Most of the promotional funds were used to increase the usable value of housing, e.g. by improving noise insulation and changing the layout. Sanitary installations were modernised and energy-saving and CO_2 reduction measures were also promoted. In this way the programme is making a considerable contribution to climate protection.

Most of the investment projects promoted were small and the average loan amount was EUR 36,000. The demand for investment stimulated with this promotion in 2003 was EUR 2.9 billion and the positive job effects mainly benefited SME building and craft firms.



Housing units promoted: 210,000

Applicants in the KfW Housing Modernisation Programme 2003

Private households	55.1 %
Companies	35.2 %
Cooperatives	9.5 %
Local authorities	0.2 %

THE INFRASTRUCTURE PROMOTION PROGRAMME.

The Special Fund "Growth Impulses" is the second KfW building block under the federal government's concept to strengthen domestic demand. Around 50% had already been utilized by the end of the year.

Loans totalling EUR 3.4 billion were committed under this fund in 2003 to finance investment in the municipal infrastructure. The fund also provides a special tranche to finance investments in the area of the Joint Task "For the Improvement of the Regional Economic Structure". This tranche could be committed at especially favourable conditions and it has now been increased from EUR 1 billion to EUR 2 billion.

Altogether, KfW Förderbank committed loans totalling EUR 4.5 billion in 2003 for the expansion and modernisation of the municipal infrastructure.

ENVIRONMENTAL PROTECTION AND RENEWABLE ENERGIES.

Through the merger of KfW and DtA the former broadly based programmes of DtA to promote commercial environmental and climate protection have been integrated in the range of products of KfW Bankengruppe for environmental promotion. This has eliminated overlapping in the programmes, which have been grouped into an attractive and transparent range of products from a single source.

The former DtA Environmental Programme was merged with the KfW Environmental Programme in mid-July 2003 to create the new KfW Environmental Programme. It serves as supplementary finance to the ERP Environmental and Energy-Saving Programme, which continues unchanged. The special environmental programmes of DtA, which promoted demonstration projects in environmental protection and the development of innovative, environmentally-friendly products, have also been incorporated in the KfW range of products.

In 2003 commitments for commercial environmental and climate protection in Germany amounted to EUR 3.3 billion. Despite the generally weaker economy activity total commitments were 4% above the previous year's level. Climate protection accounted for a major part of the total volume.

Around three quarters of commitments went to promote the commercial use of renewable energies, mainly wind power and biomass. Just under 15% was committed for projects to save energy in production processes and in buildings. Other important areas were measures to save fresh water and avoid waste water and investment in waste treatment.

THE BIGGEST LOAN PROGRAMME WORLDWIDE TO PROMOTE SOLAR POWER PLANT SUCCESSFULLY CONCLUDED.

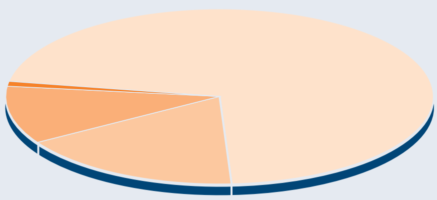
In summer 2003 the 100,000 Roofs Solar Power Programme was closed to new applications. It is the biggest loan programme to promote photovoltaic plant worldwide, and since it started in January 1999 KfW committed around 66,000 promotional loans for a total volume of EUR 1.7 billion. EUR 650 million of this was committed in 2003 alone.

Throughout the lifetime of the programme investment totalling EUR 2.4 billion was started. This enabled the existing photovoltaic capacity in Germany to be increased sevenfold in less than 5 years. At the end of 2003 the photovoltaic capacity promoted amounted to around 350 Megawatt, meeting the electricity needs of 100,000 households. In international comparison Germany has been in second place in installed solar power capacity since 2001 – behind Japan and ahead of the United States.

An important development for the future of solar power is the reduction in the costs of solar power plant as a result of the promotion. Between 1999 and 2003 these dropped by around one quarter. KfW is continuing the successful promotion of solar power plant under the KfW Environmental Programme and the KfW CO_2 Reduction Programme.

PROMOTION OF RENEWABLE ENERGIES INCREASED.

In 2003 promotional loans totalling EUR 60 million were committed under the Programme to Promote Renewable Energies. That brought the total amount committed since the start of the programme in September 1999 to more than EUR 320 million. By far the greatest part of these commitments was for plant to convert biomass into energy.



Commitments under the Programme to Promote Renewable Energies by Loan Purpose

Biogas	71.4 %
Biomass	17.1 %
Hydropower	10.7 %
Geothermics	0.9 %

EDUCATION AS INVESTMENT IN THE FUTURE.

In 2003 KfW promoted a total of 63,000 skilled personnel and students. With just under EUR 0.8 billion the bank enabled them to undergo advanced occupational training or a course of study. The volume of this promotion was up by 9% on the previous year and the number of commitments actually rose by 30%.

More than EUR 220 million was committed in loans as part of the career promotion known as the Master BAföG. This enabled 45,000 skilled personnel to finance further occupational training.

The educational loan introduced in 2001 developed particularly well. This promotional product is for students in advanced phases of their courses, e.g. after their intermediate certificate, independent of their income level or their parents' financial situation. Commitments here rose by 65% over the previous year to around EUR 66 million.

SECURITISATIONS OF KFW FÖRDERBANK.

Around 238,000 promotional loans to a total of EUR 18.4 billion were securitised in 2003 under the PROVIDE securitisation platform (2002: EUR 12.3 billion). The amount includes a pilot project, PROCESS Home, in the amount of EUR 1.5 billion, with a mixed portfolio of mortgage loans to SMEs and private housing construction loans.

Since the PROVIDE platform was introduced in 2001 19 transactions have been concluded for a total of around EUR 33 billion. Here, too, KfW has helped to give sustained support for private housing construction. A large number of new national and international investors were persuaded to invest in these long-term private housing construction loans. Altogether with these residential mortgage backed securities, or RMBS, the German market is catching up with other big European RMBS markets.

INTERNATIONAL PROJECT AND EXPORT FINANCE – KFW IPEX-BANK.

ACTIVE WORLDWIDE IN THE INTERESTS OF THE GERMAN ECONOMY.

KFW IPEX-BANK COMMITS JUST UNDER EUR 11.5 BILLION.

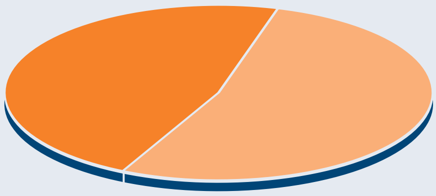
The market activities in which KfW Bankengruppe is competing with other banks in Germany and abroad are all located in KfW IPEX-Bank. They include loans to domestic companies, loans for infrastructure projects in Germany and other European countries, export loans, and project and corporate financing abroad. In export finance KfW IPEX-Bank is continuing KfW's work in officially supported export promotion. These are the export loans at CIRR rates (the OECD's Commercial Interest Reference Rate), and sales assistance for certain types of civilian aircraft (LASU financing).

This rapid separation of its market activities, in which KfW competes with other banks, is KfW's response to the understanding reached in 2002 between the Federal Republic of Germany and the European Commission on the reorganisation of the promotional bank system in Germany. The understanding provides for a clear separation of promotional banking business and market or competitive business. The legal basis for the reorganisation of the activities of the federally owned promotional banks was created in the Promotional Banks Restructuring Act dated 15 August 2003, after an appropriate Understanding had been reached in 2002 with the European Commission on the status and task sharing of the Landesbanks.

KfW began immediately to plan the organisation and procedures of a new structure that would meet the requirements of the EU Understanding. These plans were completed in 2003. In the process KfW used professional consultants, but by far the greater part of the planning was and is still being done internally. From 1 January 2008 KfW IPEX-Bank will be a legally independent bank within KfW Bankengruppe. It will be in the legal form of a GmbH – Gesellschaft mit beschränkter Haftung or limited liability company. During the transitional period the new unit will perform as a "bank within the bank", fine tuning its organisation and the work flow of all the banking processes in order fully to meet all the requirements of the German Banking Act (KWG) and other banking supervisory regulations.

Although KfW IPEX-Bank will be positioned entirely so as to meet market requirements it will always be aware of the original mission of KfW, which has been confirmed in the Promotional Banks Restructuring Act, and in particular of its special task to support the interests of German and European companies in their foreign business. In 2003 new commitments totalled nearly EUR 11.5 billion, of which EUR 6.1 billion was committed in Germany and EUR 5.4 billion abroad.

Loans in euros accounted for just under 63 % of the total volume of finance. Among the foreign currencies the US dollar predominated.

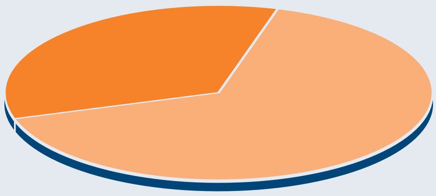


Total: EUR 11,443 million

Breakdown of Export and Project Finance Commitments of KfW IPEX-Bank in Germany and abroad

EUR million

Germany	6,055
Abroad	5,388



Total: EUR 5,388 million

Breakdown of Export and Project Finance Commitments Abroad

EUR million

Investment finance and other corporate finance	3,541
Export finance	1,847

Development in the Individual Areas of Business

Loan Commitments in EUR million[1)]

Area of business	Germany	Abroad	Total	Main focus
Industry	1,846	794	2,640	Car manufacturing, chemicals, steel
Energy and environmental technology	1,254	611	1,865	Electricity generation and transmission plants, environmental technology
Telecommunication	160	392	552	Mobile communication systems
Basic industries	171	350	521	Mining projects, raw materials transport
Shipping	726	943	1,669	Cruise and container ships, ferries
Aviation	831	859	1,689	Airbus aircraft
Rail and road transport	463	1,243	1,706	Rail transport
Airports, seaports, construction	555	196	751	Airports and seaports, terminals
AKA	50	–	50	Refinancing line
Total	6,055	5,388	11,443	

1) Differences are due to rounding.

PROJECT AND CORPORATE FINANCE IN GERMANY.

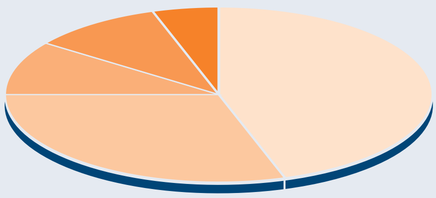
Project and corporate finance in Germany at market conditions is outside KfW's promotional business. In recent years this activity has continually gained in importance. Most of these loans were given in consortium with other German commercial banks. In 2003 the main focus was on investment by companies in industry and the services sector, particularly trading firms, and projects in the energy sector and the transport infrastructure.

In the energy sector KfW IPEX-Bank financed, among others, investments by regional electricity supply companies like municipal utilities. In transport infrastructure it undertook financing the renewal of the carriage fleets for the Hamburger Hochbahn (elevated metro) and the Bremen Straßenbahn (trams), for example, and it also financed extension and modernisation investment at German airports, which included Cologne-Bonn, Frankfurt-Hahn and Munich.

REGIONAL DISTRIBUTION OF LOAN COMMITMENTS ABROAD.

The regional distribution of loan commitments abroad shows that as in past years Europe was still the main focus of KfW IPEX-Bank's financing activities.

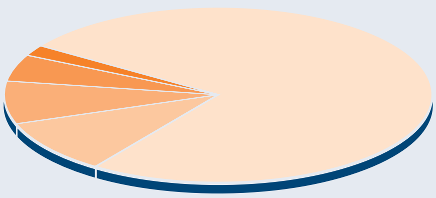
Tied Export Finance
by target region



Total: EUR 1,847 million

Europe	45 %
Asia/Australia	30 %
North America	10 %
Latin America and the Caribbean	10 %
Africa	5 %

Investment Finance and other Corporate Finance
by region



Total: EUR 3,541 million

Europe	76 %
North America	10 %
Asia/Australia	8 %
Latin America and the Caribbean	5 %
Africa	1 %

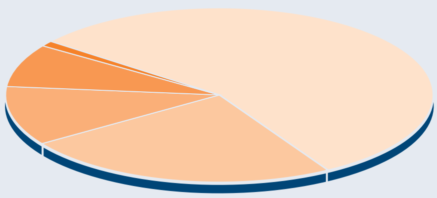
FINANCE FOR AND IN EUROPE.

KfW IPEX-Bank is a specialised financing institution which represents the interests of the German and European economies. German companies cooperate with foreign companies, especially those in other EU countries, in a variety of ways. That applies to export projects as well as to investment projects. The bank has been responding to this development for many years and for this purpose it provides financing packages from a single source also for the shares of goods and services provided by foreign companies.

Supporting the process of European integration is an important objective for KfW Bankengruppe. KfW IPEX-Bank finances exports from Europe and joint ventures between European firms. In 2003 it also took part in major infrastructure projects for the Trans-European Networks (TEN) projects. In Great Britain it participated, among others, in financing the Channel Tunnel Rail Link, a project to build the high-speed rail line between the Channel tunnel and City of London.

Tied Export Finance

Shares of deliveries by region of origin



Total: EUR 1,847 million

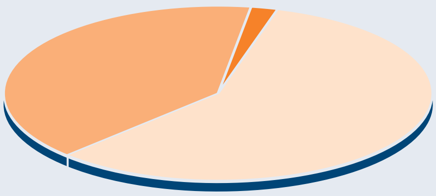
Germany	56 %
Other EU countries	24 %
Not regionally assigned: Interest during construction local costs, other	11 %
Others	8 %
Other European countries	1 %

EXPORT FINANCE WITH OFFICIAL SUPPORT.

Credit insurance and loans supported with official funds are important instruments of state export promotion. In certain countries and on certain markets they are essential to establish or maintain business relations between German firms and partners abroad. The bank also uses cover by other European credit insurers if it is financing corresponding foreign deliveries.

Loans supported with official funds must accord with the international agreements on officially supported interest rates regarding the Commercial Interest Reference Rate (CIRR) and the aircraft sector. In 2003 they only accounted for a minor part of export finance. The German system only allows CIRR financing for developing countries, where it is still important in securing the competitiveness of German suppliers.

Tied Export Finance
Shares with/without export credit insurance

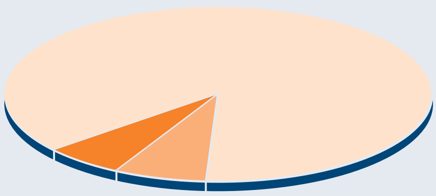


KfW financing without ECA elements*	58 %
Euler Hermes	41 %
Other ECAs*	1 %

* Export Credit Agencies

Total: EUR 1,847 million

Tied Export Finance
Shares with/without official financial support



Without official financial support	87 %
LASU[1]	7 %
CIRR[2]	6 %

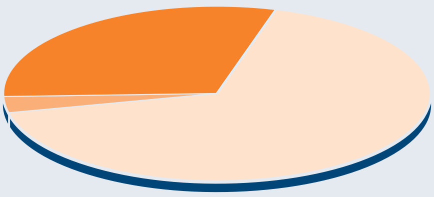
[1] Large Aircraft Sector Understanding.
[2] Commercial Interest Reference Rate.

Total: EUR 1,847 million

COOPERATION WITH OTHER BANKS.

Syndicate financing is the rule for investment and other corporate finance in large volume. That is, financing is provided in cooperation with other banks. In export and project finance cooperation between banks and other financing institutions is also increasing. One reason is the widespread practice of multi-sourcing of supplies and services whereby several suppliers from one or more countries take part in the implementation of the project. Banks are also increasingly aiming to diversify their loan portfolios for the purpose of risk management. That also applies to the size of the individual commitments. Around 72 % of all foreign financing by KfW IPEX-Bank in 2003 was carried out in conjunction with other banks.

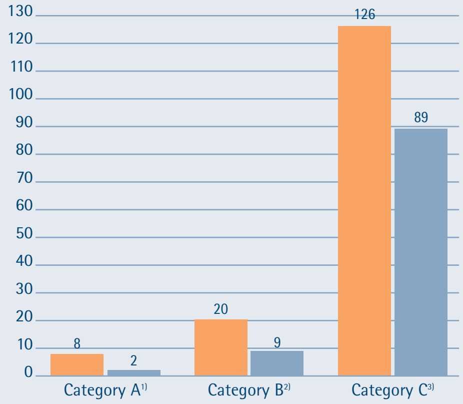
Cooperation with other banks[1] in the business abroad
Financing with/without the participation of other banks



[1] Basis: the number of financings.

RESPONSIBILITY FOR THE ENVIRONMENT.

According to the environmental policy guideline for KfW export and project finance all loan applications for financings abroad are subject to a screening (preliminary appraisal), in which the environmental and social aspects of the projects to be financed are assessed. In 2003 154 new requests for loans were appraised in this way.



Environmental Aspects in KfW Export and Project Finance

[1)] Category A: potentially substantial negative environmental effects.
[2)] Category B: potentially negative environmental effects.
[3)] Category C: no or minor environmental effects.

Projects in Categories A and B are appraised in depth in a process involving technical and environmental experts from KfW. Excluded are projects that are to be carried out in an EU country or another OECD country with established environmental protection laws and practice. In 2003 raw materials projects, power stations, electricity transmission facilities and some transport infrastructure projects were assessed for observance of internationally accepted environmental standards.

Category C includes aircraft, ships, telecommunications facilities and standard products of the capital goods industries that meet generally accepted standards.

In 2003 KfW IPEX-Bank provided loans totalling EUR 1.4 billion to finance environmentally-friendly or environmental improvement projects. Most of these were to expand or modernise rail transport.

In second place came water supply, sewage and waste treatment projects. The projects financed in Germany included a modern waste treatment plant for a big grocery company. In Russia the bank co-financed a sludge treatment plant.

The bank provided more than EUR 61 million to finance investment in renewable energies. This was two biogas plants and three wind parks in Germany and one in Spain.

PROMOTION OF THE DEVELOPING COUNTRIES – KFW ENTWICKLUNGSBANK AND DEG.

REDUCING POVERTY FOR MORE PEACE IN THE WORLD.

KFW ENTWICKLUNGSBANK (KFW DEVELOPMENT BANK).

DEVELOPMENT COOPERATION ACTIVITIES.

KfW Entwicklungsbank (KfW development bank) carries out Financial Cooperation (FC) with developing countries on behalf of the German federal government. It either finances individual investments or supports economic and sector reform programmes. Within the framework of these functions KfW Entwicklungsbank assesses the eligibility of projects for development promotion, finances and supports their execution and finally appraises the outcome of each project.

FC is dedicated primarily to the objective of reducing poverty. It contributes to reducing social and economic tensions and risks to the environment, and so makes a contribution to securing peace worldwide. The projects and programmes are embedded in the development strategies of our partners in the developing countries and they are also closely coordinated with the projects of German Technical Cooperation (TC) and other bilateral and multilateral donors. KfW Entwicklungsbank is currently promoting a total of 1,422 projects in 106 countries.

The funds provided for FC from the federal budget are made available to the partner countries in the form of grants or loans. The FC loans made available by the Federal Republic are increasingly being complemented by funds raised by KfW itself. This allows KfW Entwicklungsbank to perform larger financing tasks in specific cases. Loans composed of a mix of budget funds and market funds are referred to as FC development loans. They not only allow the financial scope of FC to be expanded considerably. FC development loans combined with budget funds can also be granted at more favourable conditions than loans consisting only of market funds. In any case, they meet the OECD criteria for recognition as official development aid.

In addition to FC development loans, FC promotional loans are available as well. These financing schemes contain no interest reduction elements from the federal budget. They are financed completely from funds raised by KfW. FC promotional loans are offered to the project partners at conditions on the lower edge of the capital market level. To be eligible for a FC promotional loan a project must above all be developmentally effective and have sufficient financial strength.

COMMITMENTS UP BY 23 %.

The commitments made by KfW Entwicklungsbank for projects that are eligible for development promotion amounted to EUR 1,594 million in the year 2003, which is around 23 % higher than the previous year's figure (EUR 1,291 million). This was due particularly to the strong growth in FC promotional loans. Their volume increased from EUR 41 million to EUR 246 million. This development shows that the FC promotional loan meets the need of many partners for a new development cooperation instrument in the economically more advanced partner countries. The FC promotional loan significantly widens our scope in development cooperation.

Commitments from budget funds also rose against the previous year; their figure was 12 % higher and reached EUR 1,085 million (EUR 971 million). As in the previous year, 70 % of these commitments were given as non-repayable grants and 30 % as long-term loans at favourable interest rates. Despite the continuing difficult conditions in the world economy KfW Entwicklungsbank was able to allocate additional market funds in a total of EUR 432 million (EUR 181 million) to projects that were eligible for development promotion.

KfW Entwicklungsbank is actively seeking cooperation with German and international partners in order to further enhance the developmental impact and efficiency of its projects. This also includes assuming project administration on behalf of other agencies. In 2003 KfW Entwicklungsbank assumed the delegation from other bilateral and multilateral donors to administrate projects in a total amount of EUR 77 million (EUR 139 million). The high figure of the previous year is due to extensive assignments delegated to KfW by the German federal government in the crisis regions of the Balkans and Afghanistan, which we are still implementing.

Commitments of KfW Entwicklungsbank 2000–2003
EUR million

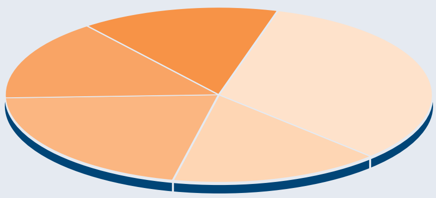
	2000	2001	2002	2003
Total KfW Entwicklungsbank	**1,019**	**1,594[1]**	**1,291**	**1,594**
FC loans (budget funds)	236	353	182	227
FC grants (budget funds)	541	494	680	757
FC development loans	150	469	249	287
of which: budget funds	*74*	*193*	*109*	*101*
of which: KfW's funds	*76*	*276*	*140*	*186*
FC promotional loans (KfW funds)	30	116	41	246
Other donors' funds (EU, GEF etc.)	62	162	139	77
Of which: total budget funds	**851**	**1,040**	**971**	**1,085**
Of which: total KfW funds	**106**	**392**	**181**	**432**

[1] Adjusted for two special loans extended by KfW to the Poverty Reduction and Growth facility of the IMF (2001: EUR 1,430 million).

MORE BALANCED REGIONAL DISTRIBUTION OF COMMITMENTS.

In 2003 the Asian countries received promotional funds totalling EUR 530 million (EUR 435 million). They account for the largest share of FC commitments by far, at 33 % (34 %). Commitments for sub-Saharan Africa increased to EUR 327 million (EUR 275 million). The regional share, however, remained constant at 21 %. Of the remaining regions, North Africa/the Middle East in particular stood out with a significantly higher share of commitments. Total commitments for this region amounted to EUR 239 million (EUR 88 million). The regional share of commitments thus rose from 7 % to 15 %.

The regional distribution of commitments does not follow a clear trend. Rather, it reflects the different project-related and economic developments in the partner countries. Altogether commitments in 2003 were more evenly spread across the regions than in the previous year.



Commitments of KfW Entwicklungsbank by region in the year 2003
EUR million and %

Asia and Oceania	530	33 %
Europe and Caucasus	259	16 %
Sub-Saharan Africa	327	21 %
Latin America	237	15 %
North Africa and the Middle East	239	15 %
Supra-regional	2	0 %

SLIGHT SHIFT IN PRIORITIES OF COOPERATION.

Commitments for social infrastructure, that is, for water, sanitation, education and health care, increased over the previous year from EUR 489 million to EUR 609 million. Its share in overall commitments, however, remained constant at 38 %. The share of the financial sector, in turn, rose noticeably to 25 % (15 %). Several FC promotional loans extended to financial institutions were the main reason for this. Economic infrastructure followed with 23 % (25 %). This sector essentially includes energy and transport. Agricultural and forestry projects accounted for 4 % (8 %) of commitments.

At 49 % (45 %) nearly half the volume of promotion went to the cross-cutting area "poverty reduction". As in the previous year, 22 % of the funds were allocated to projects explicitly aimed at the protection of the environment and natural resources. Another 22 % (15 %) went to projects in which environmental and resource protection are important additional aims. These figures demonstrate that the commitments continue to follow the main objectives of development cooperation. These objectives are primarily geared to the "Millennium Development Goals" of the United Nations. Their main emphasis is poverty reduction, besides other important social and ecological objectives.

KFW ENTWICKLUNGSBANK PAID EUR 1.2 BILLION.

In the year 2003 KfW Entwicklungsbank disbursed EUR 1.2 billion (EUR 1.3 billion) for projects to promote developing countries. After payments of interest and principal, the net transfer from the federal budget amounted to EUR 176 million in 2003 (EUR 104 million).

RESCHEDULINGS AND DEBT CONVERSIONS FOR ENVIRONMENTAL PROTECTION AND POVERTY ALLEVIATION.

Under certain conditions the federal government is prepared to ease the repayment of development loans already given, or write off part of them, for highly indebted partner countries that are willing to undertake reforms. Agreements of this kind are given in coordination with the international community of donors in the Paris Club or through the Heavily Indebted Poor Countries (HIPC) Initiative, which is administered by the International Monetary Fund (IMF). KfW participates in the negotiations on the German side.

For debt relief to partner countries in 2003 KfW concluded debt rescheduling and cancellation agreements with Ghana, the Democratic Republic of Congo, Madagascar and Nicaragua for a total of EUR 106 million.

The federal government committed EUR 25 million for debt conversions in 2003. In these cases the debtor countries are released from repayment of the debt if they use the funds so saved for poverty reduction projects and to protect the environment. KfW signed corresponding agreements for EUR 90 million in 2003, which included some amounts committed in earlier years.

KFW AND DEG EXPANDED THEIR LOCAL PRESENCE.

In the past 10 years KfW Bankengruppe has begun to expand its local presence in the partner countries. During this time the number of office locations staffed with expatriates has been increased continuously, and additional offices with local representatives have been established. This network of foreign representations benefits customers and project partners of KfW Entwicklungsbank and DEG. It now includes around 30 offices and 18 field offices around the world. In 2003 alone, five new offices were established in Yemen, Ghana, Mozambique, Senegal and Mexico. The offices perform functions involving customer relations and project monitoring as well as the preparation of new projects.

The positive impact of the local presence on the workflow in development cooperation is very noticeable. Growing coordination and cooperation with other donor organisations require a local representation. FC procedures have accelerated, project administration has been delegated to KfW and implemented, participation in the sector dialogue has intensified, FC promotional loans have been agreed and, not least, the financing operations of DEG with private partners have been supported. KfW Entwicklungsbank has faced up to these challenges and will continue to play a part in supervising the development cooperation on site and coordinating the priorities.

DEG'S ACTIVITIES.

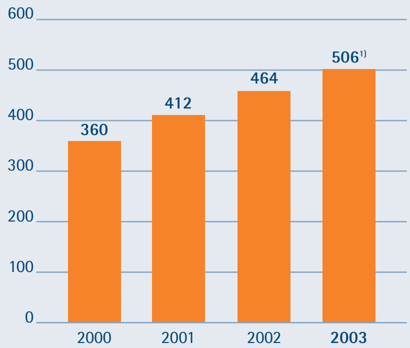
FINANCING OPERATIONS FURTHER EXPANDED.

Despite the world economy's trend towards stagnation and a variety of political uncertainties, DEG was again able to expand its financing business in 2003. It achieved its highest commitment volume ever, at EUR 506 million (EUR 464 million). That was an increase of 9% from the previous year. With 88 projects it achieved the highest number of financings in a single year. A further EUR 52 million was mobilised through risk sub-participations in cooperation with KfW Entwicklungsbank and the Dutch development finance institution FMO. According to the valuations of new operations that were conducted under the internal business rating, the developmental quality of the projects has further improved.

Disbursements rose to EUR 434 million (EUR 357 million). A further EUR 43 million went to project companies under risk sub-participations.

The portfolio increased to EUR 2.4 billion, spread across 472 enterprises in 85 partner countries. This makes DEG one of Europe's biggest financing institutions specialised in the promotion of the private sector in developing and transition countries.

DEG committed EUR 26 million for equity finance in the year under review. Loans amounted to EUR 477 million, of which EUR 58 million was provided in the form of quasi-equity loans. Hence, the use of risk capital in the form of private equity and mezzanine financings amounted to EUR 84 million. This was nearly 17% of new business. EUR 3 million was committed under guarantees.



Commitments of DEG 2000 – 2003
EUR million

■ Total new commitments of DEG

[1)] A further EUR 52 million was committed under risk participations of third parties.

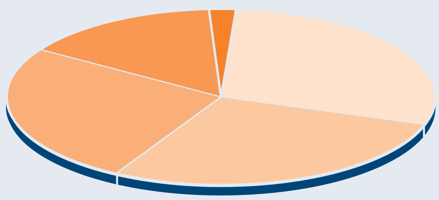
REGIONAL AND SECTORAL DISTRIBUTION OF NEW COMMITMENTS.

The 2003 financing commitments were spread through 32 countries. For the first time DEG made commitments in Algeria and Uruguay. It resumed operations in Madagascar after a prolonged interruption. The regional focus was Europe/Caucasus/Turkey with EUR 148 million (29 %) with Asia just behind at EUR 142 million (28 %). Latin America followed with EUR 129 million (26 %), ahead of Africa with EUR 79 million (15 %). Of this sum EUR 42 million was committed for sub-Saharan Africa and EUR 37 million for North Africa. EUR 8 million (2 %) was made available for two internationally operating project companies.

In 2003 DEG strengthened its commitment particularly in the financial sector of the partner countries. The funds committed accounted for 43 % of new business. Among other purposes, they were used for the promotion of capital expenditure by small and medium-sized enterprises and for the financing of exports. Leasing and housing companies were also co-financed. Enterprises of the manufacturing sector received 28 % of the funds. Infrastructure projects in the areas of telecommunications, transport, energy and education accounted for 15 % of new commitments. The share of tourism and other service sector projects was 10 %. The mining industry and the agricultural sector, including fishery, each accounted for 2 %.

Commitments of DEG by Region in the year 2003

EUR million and %



Total: EUR 506 million

Europe and Caucasus	148	29 %
Asia and Oceania	142	28 %
Latin America	129	26 %
North and Sub-Saharan Africa	79	15 %
Supra-regional	8	2 %

ADVISORY AND PROMOTIONAL PROGRAMMES.

DEG performed advisory services for German and foreign enterprises as well as for institutions dedicated to promoting private-sector cooperation in the partner countries. It made its expertise available for the preparation, structuring and realisation of investment projects in the developing and transition countries of Central and Eastern Europe.

In the year under review DEG financed 48 projects for which it committed EUR 8 million from funds of the federal budget under the Public Private Partnership Programme for development partnerships with the private sector, in short PPP, initiated by the German Ministry for Economic Cooperation (BMZ). The partner enterprises invested a further EUR 15 million. An overall project volume of EUR 23 million was realised in 2003.

DEG has financed 278 PPP projects since 1999. Around two thirds were executed in cooperation with small and medium-sized project partner firms. Public funds of EUR 36 million were invested in these projects. The enterprises' contribution reached EUR 69 million.

DEG is currently offering a special loan programme for business start-ups and young enterprises in eight partner countries on behalf of the BMZ. Revolving credit funds were set up with local partner banks for this purpose. The funds provide start-up capital at market conditions for young persons setting up a business. These also include professionals who were trained in Germany. More than 670 loans were approved from these funds in 2003. They contributed to safeguarding more than 4000 jobs.

In addition, since 2002 DEG has also been supporting business start-ups in Afghanistan with non-repayable equity assistance and complementary advisory offers on behalf of the BMZ. Around 190 projects were supported in 2003, most of them in traditional handicrafts businesses. So far the financing of micro-business start-ups has created more than 4600 jobs.

EUROPEAN COOPERATION INTENSIFIED.

Cooperation within the framework of EDFI (European Development Finance Institutions) was intensified. Ten of the 13 EDFI members – among them DEG – signed an agreement with the European Investment Bank (EIB) on the establishment of European Financing Partners (EFP) S.A. in December 2003. Under this project, EDFI funds of EUR 90 million are pooled with EUR 90 million in funds of the Cotonou Investment Facility. Their purpose is to complement project financings of the EDFI institutions for the promotion of the private sector in the ACP states (Africa, the Caribbean and the Pacific).

In addition, DEG has further expanded its close cooperation with the Dutch FMO, which it has maintained for many years. Common directives were developed for the division of tasks in the cooperation in project financings. These are intended to translate into joint appraisal reports and standardised contractual documents. A major intensification of the cooperation with the French PROPARCO has been prepared as well. DEG will participate in the capital of PROPARCO and will be represented in the company's supervisory board.

RESULT WAS FURTHER IMPROVED.

The result of ordinary business activity has further improved, reaching EUR 57.4 million (EUR 49.8 million). This is primarily due to one-time income from the sale of shareholdings and the increase of the "other income", as well as the decline in net risk provisions.

After taxes of EUR 16.6 million (EUR 11.9 million), net income totalled EUR 40.8 million (EUR 37.9 million). It is equal to the net profit for the year and is allocated to the retained earnings to strengthen the equity base.

OUTLOOK FOR THE COMING YEAR.

The supply of long-term investment capital continues to be insufficient in most partner countries. This leads to a situation in which lively demand for DEG financings and project-specific structurings continues unabated – regardless of the persistent economic and political uncertainties.

Against this background DEG is planning to moderately expand its new business to EUR 550 million in 2004. A particular focus will be on the intensification of its Africa business and on the expansion of equity finance. In addition, joint financings with small and medium-sized enterprises from Germany are to be intensified.

The expansion of the network of foreign representations of KfW Bankengruppe will contribute to the continuing development of new business operations. In early 2004 DEG officially inaugurated its second Latin American office, which is located in Mexico City. The acquisition of new business in the Asian region is supported by a new regional office in Bangkok. It will be the home base of the department head in charge of operations in Asia.

Especially in difficult countries, DEG will continue working towards stabilising existing commitments and supporting financial restructurings within the scope of its possibilities. This specific portfolio management serves to preserve its assets. At the same time, it secures the jobs and income of employees in the co-financed enterprises in particular.

Promotion of the Developing Countries – Financing Commitments of KfW Bankengruppe in 2003 by Country
EUR million

Position	Country	KfW	DEG	Total
1	People´s Republic of China	183.88	17.98	201.86
2	India	92.98	61.75	154.73
3	Andean Pact (CAF)	94.59	0.00	94.59
4	Palestinian Territories	90.46	0.00	90.46
5	Croatia	49.48	36.10	85.58
6	Egypt	66.47	11.87	78.34
7	Tanzania	64.66	0.00	64.66
8	Vietnam	61.00	0.00	61.00
9	America, supra-regional	0.00	57.33	57.33
10	Bangladesh	56.51	0.00	56.51
11	Romania	12.89	43.15	56.04
12	Indonesia	29.58	24.37	53.95
13	Tunisia	51.22	0.00	51.22
14	Georgia	39.99	0.13	40.12
15	Brazil	23.01	15.57	38.58
16	Kenya	36.92	0.00	36.92
17	Bolivia	32.54	0.00	32.54
18	Supra-regional	22.38	8.00	30.38
19	Ghana	29.29	0.00	29.29
20	Philippines	16.53	12.26	28.79
21	Bulgaria	20.39	7.23	27.62
22	Ethiopia	26.97	0.00	26.97
23	Serbia and Montenegro	25.17	1.58	26.75
24	Poland	0.00	25.81	25.81
25	Algeria	0.00	25.00	25.00
26	Kazakhstan	12.90	11.62	24.52
27	Turkey	11.12	12.50	23.62
28	Central American Bank for Economic Integration (BCIE)	23.41	0.00	23.41
29	Afghanistan	22.70	0.00	22.70
30	Azerbaijan	21.69	0.00	21.69
31	Albania	19.54	0.00	19.54
32	Uzbekistan	19.29	0.00	19.29
33	Burkina Faso	17.98	0.00	17.98
34	Panama	17.59	0.00	17.59
35	Zambia	10.17	6.53	16.70
36	Yemen	16.25	0.00	16.25
37	Guinea	16.14	0.00	16.14
38	Costa Rica	8.69	7.37	16.06
39	Chad	15.48	0.00	15.48
40	Armenia	15.35	0.00	15.35
41	Russian Federation	0.00	15.17	15.17
42	Jordan	15.00	0.00	15.00
43	Uruguay	0.00	14.92	14.92
44	Ecuador	14.86	0.00	14.86

(cont.)

Position	Country	KfW	DEG	Total
45	Nigeria	0.00	14.80	14.80
46	Africa, supra-regional	0.00	14.26	14.26
47	Mozambique	14.01	0.00	14.01
48	Kyrgyzstan	12.70	0.00	12.70
49	Argentina	0.00	12.10	12.10
50	Cameroon	11.68	0.00	11.68
51	Eritrea	11.42	0.00	11.42
52	Mauritania	10.90	0.00	10.90
53	Nicaragua	10.62	0.00	10.62
54	Madagascar	4.09	6.50	10.59
55	Mali	10.11	0.00	10.11
56	El Salvador	0.51	8.94	9.45
57	Mexico	0.00	9.42	9.42
58	Cambodia	8.11	0.98	9.09
59	Maldives	0.00	9.00	9.00
60	South Africa	9.00	0.00	9.00
61	Southeastern Europe	8.60	0.00	8.60
62	Uganda	8.24	0.00	8.24
63	Macedonia	7.12	0.00	7.12
64	Caribbean Community (CARICOM)	6.00	0.00	6.00
65	Rwanda	5.62	0.00	5.62
66	Laos	5.11	0.00	5.11
67	Senegal	5.03	0.00	5.03
68	Benin	5.00	0.00	5.00
69	Lithuania	0.00	5.00	5.00
70	Guatemala	4.90	0.00	4.90
71	Sri Lanka	2.56	1.92	4.48
72	Mongolia	4.39	0.00	4.39
73	Ukraine	4.23	0.00	4.23
74	Bosnia and Herzegovina	4.06	0.00	4.06
75	Honduras	0.00	3.83	3.83
76	Burundi	3.50	0.00	3.50
77	Namibia	2.56	0.07	2.63
78	Malawi	1.87	0.00	1.87
79	Singapore	0.00	1.78	1.78
80	Cape Verde	1.53	0.00	1.53
81	Moldova	1.28	0.00	1.28
82	Southern African Development Community	1.00	0.00	1.00
83	Tajikistan	1.00	0.00	1.00
84	Hungary	0.00	1.00	1.00
85	Central Asia NA	1.00	0.00	1.00
86	Chile	0.50	0.00	0.50
87	Lesotho	0.40	0.00	0.40
88	Nepal	0.39	0.00	0.39
89	Europe, supra-regional	0.00	0.10	0.10
Total		1,594.11	505.94	2,100.05

ADVISORY AND OTHER SERVICES.

ALL-ROUND CONSULTANCY FOR SMALL AND MEDIUM-SIZED ENTERPRISES.

CONSULTANCY FOR BUSINESS START-UPS, SMES AND PRIVATE BUILDERS.

TARGETED FINANCIAL ADVICE.

Persons setting up a business, small and medium-sized firms, housing companies, private households, municipalities and multipliers need to know about KfW's promotional loans. That is essential if our offers of finance are to be utilised by the people they are designed for.

It is not only a matter of providing information about KfW's range of products, our customers also need advice about the right financing structure and the various financing alternatives. We make use of all the suitable channels of communication to provide information for our customers and multipliers.

THE INTERNET REMAINS THE MAIN MEDIUM.

KfW uses the Internet as the main medium to provide up-to-date information for each target group. Potential customers can find everything they need to know about KfW Bankengruppe and its products under www.kfw.de. An interactive loan advisory tool helps customers to find the loan programme that is specifically suited to his envisaged project.

When KfW Mittelstandsbank was set up in July 2003 the Internet website www.kfw-mittelstandsbank.de was opened. It provides information on all programmes of KfW Bankengruppe for business founders, small and medium-sized enterprises, self-employed professionals and start-ups.

In addition, the Consulting Forum is designed for KfW's sales and cooperation partners, offering specific information round the promotional products of KfW Mittelstandsbank.

Cooperation with other organisations enables KfW to offer online consultancy on subjects beyond pure promotional lending. The websites co2online.de, baufoerderer.de, solarfoerderung.de and business-angels.de have been considerably enlarged and improved this year.

HUGE DEMAND FOR TELEPHONE CONSULTANCY FROM THE KFW-INFOCENTERS.

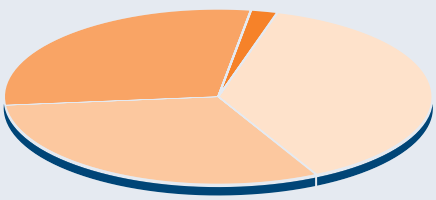
The KfW-Infocenter has adjusted to the new structures of KfW Mittelstandsbank and KfW Förderbank and increased its personnel.

There is enormous demand. Last year the KfW financing experts received nearly 350,000 calls. The Infocenter of KfW Mittelstandsbank alone (Tel: 0180 1 241124) answered 100,000 requests for advice from small and medium-sized enterprises. A further 250,000 enquiries were handled by the Infocenter at KfW Förderbank (Tel.: 0180 1 335577); most were for investment promotion in the housing sector and environmental and climate protection.

PERSONAL CONSULTANCY IN THE KFW ADVISORY CENTERS AND ON KFW OPEN DAYS FOR CONSULTATION.

In 2003 more than 3,000 customers made use of the possibility of personal consultancy from KfW experts in KfW's main centers in Bonn and Berlin. In response to demand from customers these centers handle all the questions on promotion for business start-ups, home ownership, climate protection and energy saving measures.

In addition, persons setting up a business also have the possibility of obtaining advice on complex financing questions on one of the roughly 50 KfW Open Days for Consultation that are held monthly throughout Germany. The consultancy for business founders builds up on the general orientation advice available from the chambers of industry and commerce, which are regional cooperation partners for KfW. Around 3,000 men and women who were setting up a business obtained advice from KfW consultants on the spot in 2003.



Key Areas of Advice provided by the Infocenters of KfW Bankengruppe 2003
In %

Environmental and Climate Protection	38 %
Commercial Loan Programmes (not incl. environmental programmes)	31 %
Housing Promotion	29 %
Infrastructure	2 %

ADVICE ON CORPORATE DEVELOPMENT.

KfW benefited from the merger with DtA to widen its range of consultancy for small and medium-sized enterprises.

Money alone is not enough to ensure the success of a business. That applies particularly to business start-ups and young firms. Their prospects of success depend on the quality of their project, their business know-how and wide commercial experience. But external conditions play a major role, too. They can conceal many an obstacle for young firms.

KfW makes a number of consultancy instruments available to business start-ups and SMEs. Under the motto "Help to Self-Help" we support them in important development phases – growth, succession or crisis, helping them to realize their business idea or to handle the change over from one generation to the next. We also have well-proven coaching instruments, which we use to support SMEs that find themselves temporarily in rough water and help them get back on to a successful course.

The offers of coaching and information exchanges of KfW Mittelstandsbank are given in co-operation with the regional chambers of industry and commerce, the crafts and the independent professions as well as other partners.

PILOT PROJECTS FOR KFW START-UP COACHING COMPLETED.

KfW's start-up coaching and start-up days, which were started in July 2003 as part of the federal government's SME campaign, were first installed in the three pilot locations Berlin, Neubrandenburg and Leipzig.

The start-up days are held regularly, giving business founders the opportunity to present their concepts, live and on the spot, to a team of experts from KfW, the chambers of industry and trade and – if the start-up business is started by a person who was formerly unemployed – the regional labour office. On the basis of this presentation the experts then make recommendations to the business founder on how to realize his project; he may also receive ESF co-financed promotion as part of the coaching. Start-up coaching thus helps to accelerate the process and increase the quality.

The pilot phase ran until 31 December 2003 and the evaluation was made by VDI/VDE-IT.

FRANCHISE – THE POOL OF IDEAS FOR NEW BUSINESSES.

Franchising offers persons willing to set up a business an alternative to put into practice their own idea. A franchise seller gives a franchise buyer the chance to offer a product or service that is already established in the market using the brand name. In taking on a franchise the franchise buyer also takes on obligations.

The franchise exchange of KfW Mittelstandsbank is available on the Internet under www.nexxt.org. It is part of the "nexxt" initiative and provides a survey of the franchise systems that are eligible for promotion under the relevant KfW guidelines.

KFW MARKETPLACES FOR INNOVATIVE START-UPS AND YOUNG ENTREPRENEURS.

Young technology-oriented firms are important as they can be future innovators as well as furthering structural change. KfW supports these firms, not only with its own offers of finance but also by providing contact with potential capital and other investors.

In conjunction with Deutsche Börse KfW holds an equity capital forum every six months. Innovative firms seeking equity capital partners can present themselves to interested investors. Around 500 firms and nearly 1,000 investors and consultants made use of this possibility for direct contact in 2003.

KfW Mittelstandsbank, Deutsche Börse and BAND (Business Angels Network Deutschland) jointly offer the Business Angels Service on the Internet under www.business-angels-forum.de. This platform helps to establish contact between start-up entrepreneurs who are looking for capital and know-how, and business angels. At present nearly 150 start-up businesses or business angels are registered in the data bank.

KFW/DIHK GODFATHER COACHING IN THE NEW FEDERAL STATES – MANAGEMENT SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES.

Together with the DIHK (German Chamber of Industry and Commerce) KfW offers coaching in the new federal states. This gives SMEs the possibility of improving their competitiveness and efficiency with external support. More than 600 entrepreneurs received management support from honorary godfathers in 2003 to improve their work flows and processes.

CORPORATE SUCCESSION – HELP IN FINDING THE RIGHT FIRM.

KfW Mittelstandsbank is running the "nexxt" initiative in partnership with the Federal Ministry of Economics and Labour and other partners. The initiative is available on the Internet under www.nexxt.org. It is a company exchange containing information about several thousand businesses in Germany which are looking for a successor. Under www.change-online.de the corporate succession exchange, "change", offers a selection of the full list of "nexxt". The offers are presented in close cooperation with the regional chambers. In 2003 alone there were more than 1,000 successful cases where the owner of a firm found a successor to carry on the enterprise.

THE KFW ROUND TABLE – MUCH FREQUENTED IN 2003 AS WELL.

The KfW Round Table operates in nearly 50 locations throughout Germany. It is for companies that find themselves in difficulties owing to an unexpected development in their business, although their market prospects are good. Nearly 4,000 firms were given Round Table monitoring in 2003. A consultant made an analysis of deficiencies and operations of the respective company. On the basis of this analysis a statement was prepared on whether company rehabilitation was possible. In the event of a positive outlook for the company a possible solution was worked out together with those involved.

OFFERS OF ADVANCED TRAINING.

Under the motto "Teach the teacher" we are offering specific training courses on subjects relevant to SMEs, in conjunction with the KfW Academy and in the form of specific workshops.

THE KFW ACADEMY – TRAINING COURSES FOR CONSULTANTS AND MULTIPLIERS.

Under the umbrella of the KfW Academy KfW offers training courses on central themes of SME management and questions related to the housing sector. The subjects range from rating through corporate assessment to crisis management. Last year just under 1,000 participants attended the 20 Academy courses.

WORKSHOPS – QUALIFYING MULTIPLIERS.

KfW offers thematically structured workshops and events on all the KfW promotional and consultancy products. The aim is to qualify multipliers to pass on information about the promotional programmes to end-customers.

TASKS IN CONNECTION WITH GERMAN UNIFICATION.

IMPLEMENTING AND EXECUTING THE LAW ON ASSISTANCE WITH OLD DEBTS (AHG).

On behalf of the Federal Government and the federal states KfW took on the implementation of the Law on Assistance with Old Debts (AHG) in 1993.

So far it has been possible to confirm to more than 2,000 housing enterprises that they have fulfilled their privatisation obligations or are not responsible for the circumstances that prevent them doing so. That is more than 98 % of the applicants. So far privatisation receipts of around EUR 874 million have been handed over to the Inherited Debt Fund (ELF).

Also on behalf of the Federal Government KfW has taken on the implementation of the Ordinance on Assistance with Old Debts that came into force on 1 January 2001. Under this Ordinance housing enterprises, whose existence is threatened because they have a considerable stock of empty housing which they cannot sell or let, can receive further relief upon application. The deadline for applications was 31 December 2003. So far commitments have been given for 115 applications to a total volume of more than EUR 657 million. Thus, almost all the budget funds provided so far by the federal government for the implementation of the Ordinance, which is around EUR 658 million, have been committed. Around 280 more applications have been submitted to KfW.

FURTHER REDUCTION IN OLD CLAIMS.

KfW handles stocks of old claims that have passed to the Federal Republic of Germany in the process of German unification. The original volume of approximately EUR 3.3 billion has now been reduced to a small remainder of around EUR 70 million. As legal representative KfW also handles the accounts of unknown creditors, or creditors whose whereabouts is unknown, which had been administered by the state during the GDR period. At present around 5,500 accounts remain out of a total of 8,000. KfW has again increased its efforts to swiftly find the creditors of the remaining 5,500 accounts. If the creditors cannot be traced the amounts on these accounts will be handed over to the Compensation Fund at the Federal Office for the Settlement of Open Property Questions.

CLAIMS RESULTING FROM FOREIGN TRADE BY THE FORMER GDR.

On behalf of the federal government KfW handles claims on a number of foreign states resulting from foreign trade by the former GDR. On 31 December 2003 claims amounted to around EUR 1.2 billion. During the year under review the balance with Angola was finally settled. Altogether payments received totalled around EUR 157 million.

KfW also handles claims on German exporters for reimbursement arising out of amounts wrongly offset against transfer rubles. The amount realized in 2003 was around EUR 0.6 million.

From these two complexes together KfW collected payments of around EUR 158 million for the federal government during the year under review.

THE COMPENSATION FUND FOR CURRENCY CONVERSION.

KfW has been commissioned to handle the business for the Compensation Fund for Currency Conversion, which was set up in connection with the currency union.

On 31 December 2003 the compensation claims assigned amounted to EUR 45.6 billion. Of these EUR 43.6 billion was converted into bearer bonds. The compensation liabilities amounted to EUR 1.9 billion.

After deduction of the redemption payments already made a balance of EUR 2.3 billion remains to the Inherited Debt Fund.

FINANZIERUNGS- UND BERATUNGSGESELLSCHAFT MBH (FUB).

FuB's activities include handling business for the Federal Agency for Special Tasks resulting from Unification (BvS), chiefly:

- Contract management to supervise and fulfil the obligations under the privatisation contracts,
- Handling participations for companies that are being wound up,
- Reprivatisation, including handling public and private claims for restitution,
- Cross-departmental BvS tasks, like budget planning and accounting.

In 2003 560 of the 1,600 privatisation contracts at the start of the year were finally processed. The entry of 320 companies in the Commercial Register was deleted, so that at the end of the year only 365 companies remained to be processed. A clear reduction in the number of open cases for restitution was also achieved, despite receiving a number of new applications.

On 15 May 2003 FuB acquired adjusted claims from the property enterprise TLG Immobilien GmbH (formerly Treuhand Liegenschaftsgesellschaft). In this connection it took over the contract management for around 2,600 properties. The work of finally processing these contracts was successfully started in 2003.

In addition, FuB also handles special tasks connected with the currency conversion, especially identifying persons entitled to make claims on foreign currency accounts held at the time. In 2003 again around 1,400 credit amounts totalling EUR 1.63 million were transferred to hitherto unknown creditors or to the Compensation Fund at the Federal Office for the Settlement of Open Property Questions. On 31 December 2003 only about 5,900 accounts for a total of EUR 7.3 million remained.

THE COMPENSATORY FUND FOR SECURITIES TRADING COMPANIES (EDW).

The EdW insures small investors against loss on their claims on securities transactions up to a minimum amount laid down by law. On 31 December 2003 780 securities trading firms were members of EdW. In past years the Federal Institute for Financial Services Supervision (formerly the Federal Banking Supervisory Office) had established that compensation was due in 15 cases of EdW member firms, but in 2003 no such cases were established. So far a total of around EUR 3 million has been paid in compensation to 355 investors.

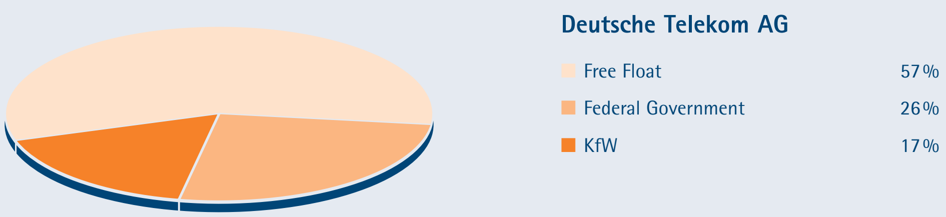
PRIVATISATION OF DEUTSCHE TELEKOM AND DEUTSCHE POST.

With the recovery on the stock market KfW resumed the privatisation of Deutsche Telekom AG and Deutsche Post AG. In July 2003 KfW issued a five-year bond exchangeable into shares in Deutsche Telekom. In December a three-year bond exchangeable into shares of Deutsche Post followed, together with a direct sale of shares.

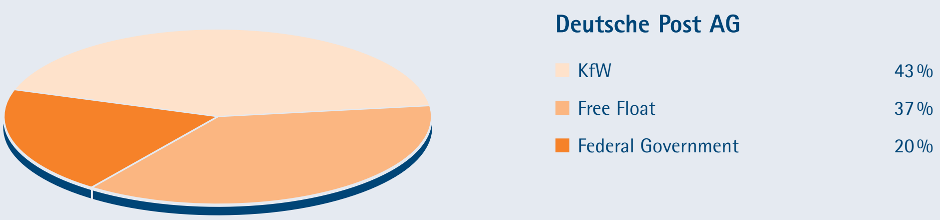
The exchangeable bonds added a new innovative capital market instrument to the range of possible privatisation instruments. The combination of KfW's excellent rating with companies listed on the DAX share index created an attractive product that gave rise to strong demand from institutional investors.

With a volume of EUR 5 billion the Deutsche Telekom exchangeable bond was the largest bond of this kind issued worldwide. At EUR 2.1 billion the combined exchangeable bond and share sale of Deutsche Post AG was among the biggest transactions in 2003. Both deals were seen in Europe as pioneering for further privatisation transactions. For this pioneering role and the professionalism with which the transaction was handled the Deutsche Telekom exchangeable bond was named Equity-Linked Deal of the Year 2003 by the International Finance Review.

In the second half of the year KfW acquired around 4.7 % of the shares in Deutsche Telekom and around 30 % of the Deutsche Post shares worth a total of EUR 5.5 billion, as part of a new holding arrangement.



Approx. 703 million shares held by KfW



Approx. 474 million shares held by KfW

FUNDING.

One of the leading issuers worldwide.

SUCCESSFUL CAPITAL MARKET ACTIVITIES OF KFW.

In the last few years KfW has developed into one of the leading issuers worldwide. In 2003 it raised long-term funds in the equivalent of EUR 48.6 billion in the capital markets, plus EUR 2.1 billion raised in the context of its securitisation activities. The total volume decreased slightly against the record year of 2002 (EUR 53.9 billion). The issue volume expected for the year 2004 is EUR 50 to 55 billion.

KfW has a broad range of instruments for its activities in the different capital market segments. This ensures that it is in the position at any time to raise large volumes of funds. The bulk of funds is issued under the benchmark programmes, which offer highly liquid bonds in the core currencies Euro and US dollar. The benchmark bonds issued under the programmes have developed into true surrogates for government bonds. Due to the broad international investor base these bonds can, if necessary, also be successfully placed under difficult market conditions.

Through public bonds issued outside the benchmark programmes and through customized private placements in a variety of currencies KfW is able to respond to current market trends and specific investor needs. For instance, in response to the strong demand for callable bonds this segment accounted for a high share of the issue volume of KfW in 2003 (25 %).

Reliability, a high name recognition as a first-class issuer and openness to flexibility and innovation also form the basis for KfW's successful appearance in the capital market.

KfW – Borrowing in Domestic and Foreign Capital Markets[1)]
EUR billion[2)]

	2002	2003
In EUR[3)]	**21.9**	**27.3**
Of which: Loans	*1.3*	*2.5*
Bonds and notes	*20.6*	*24.8*
In foreign currencies	**32.1**	**23.4**
Total[3)]	**53.9**	**50.7**

1) Maturity of more than one year.
2) Foreign currencies converted in EUR at exchange rates on the day of borrowing.
3) Differences in the totals are due to rounding.

FUNDING ACTIVITIES CONTINUED ON A HIGH LEVEL.

Roughly half of KfW's funding volume was raised in euros (2002: approximately 40 %). About one third was issued in US dollars. 8 % of funds were raised in Japanese yen and the remainder in pounds sterling and other currencies. Altogether, KfW issued 509 securities (2002: 479).

Borrowings in 2002/2003 by Currency
EUR billion and %

	2002		2003	
Currency	EUR billion	%	EUR billion	%
EUR	21.9	40.5	27.3	53.7
USD	23.6	43.7	16.4	32.3
JPY	4.2	7.8	3.9	7.7
GBP	2.6	4.8	1.7	3.4
Others	1.7	3.2	1.5	3.0
Total	53.9	100.0	50.7	100.0

SUCCESSFUL MIX OF INSTRUMENTS.

In 2003 the equivalent of EUR 20.5 billion was issued under the benchmark programmes. This is a share of 40% in the total funding volume. The € Benchmark Programme accounted for EUR 15 billion; USD 6 billion were issued under the USD Programme.

At EUR 17 billion, other public bonds accounted for a substantially higher share of the funding than in the year before (EUR 12.8 billion). This was mainly due to two new developments. On the one hand, there was huge investor demand for callable products. On the other hand, the EUR 5 billion KfW bonds exchangeable into shares of Deutsche Telekom played a major role. Not only did these bonds constitute a great success with regard to the privatisation of Deutsche Telekom. They also meant an expansion of KfW's range of funding instruments. More detailed information is available on page 90.

Given a volume of EUR 10.7 billion and a total of 417 transactions, private placements remained below the previous year's figure (EUR 14.1 billion). Still, the result was very satisfactory.

€ Benchmark Programme 2003

	EUR billion	Maturity	Interest rate in %
KfW € Benchmark VII	5.0	April 25, 2008	3.250
KfW € Benchmark VIII	5.0	July 4, 2013	3.875
KfW € Benchmark IX	5.0	Nov. 11, 2006	3.125

US$ Programme 2003

	USD billion	Maturity	Interest rate in %
USD Global Bond IV	3.0	January 23, 2008	3.375
USD Global Bond V	3.0	Sept. 25, 2006	2.375

Funding volume in 2003 by Instruments
EUR billion and %

	EUR billion	%
Securities	**48.2**	**95.0**
of which: Benchmark bonds	20.5	40.4
of which: Other public bonds	17.0	33.6
of which: Private placements	10.7	21.0
Loans	**2.5**	**5.0**
of which: Credit-linked notes	2.1	4.2
of which: Others	0.4	0.8
Total	**50.7**	**100.0**

FIRMLY ROOTED IN THE JAPANESE CAPITAL MARKET.

In 2003 336 individual bonds denominated in Japanese yen were issued for investors in Japan. The previous year's figure was 291. Issues were mainly made as private placements, i.e. the terms and conditions were specifically tailored to the needs of the individual institutional investors.

Equally KfW made a great leap forward in the placement of securities with Japanese private investors. In April 2003 the largest so-called Uridashi bond ever issued by a non-Japanese entity was placed in the Japanese market. A Uridashi bond is a public bond specifically directed at retail investors but not denominated in Japanese yen. The bond had a volume of 1.665 billion Australian dollars, which is approximately EUR 925 million. In the course of the year two more issues in smaller amounts were also placed in the market. The bonds helped to further deepen KfW's investor base in Japan.

MONEY MARKET ACTIVITIES REMAIN STABLE ON A HIGH LEVEL.

KfW can again look back on a successful year in the money market. The bank was able to further strengthen its position as one of the leading issuers in the euro commercial paper market. This instrument, which is extremely flexible in both terms and currencies, offers investors the opportunity to acquire the credit of the Federal Republic of Germany in the segment of short-term securities. Under the Multi-Currency Commercial Paper Programme KfW launched 570 transactions worth a total of EUR 37.1 billion. Here, KfW continued on the high level of the previous year. The funds were used for KfW's short-term liquidity management.

In addition, KfW International Finance has a US-dollar Commercial Paper Programme in the United States, which is the biggest market for commercial paper in the world. At the beginning of 2003 the program was increased to USD 6 billion to take better advantage of the US market potential. Accordingly, the volumes issued in the USA grew by 30% compared with the previous year to USD 40.9 billion.

NAME RECOGNITION WITH INVESTORS INCREASED FURTHER.

KfW's investor relations activities were substantially expanded in 2003. Activities focused increasingly on large domestic and international investors and on presenting KfW at international capital market conferences.

The provision of up-to-date and extensive information on KfW's issue strategy and its economic situation is becoming increasingly important. In consequence, the internet presence is being continuously expanded. As from 2004 a monthly e-mail newsletter will also be published. The newsletter can be subscribed in the internet under www.kfw.de/investor-relations.

OUTLOOK FOR 2004.

KfW expects a need for funding in the capital markets of between EUR 50 and 50 billion in 2004. Bonds worth a total of EUR 20 billion are planned under the two benchmark programmes. As in 2003 KfW aims at tapping the international capital markets in a balanced and diversified manner. As a new initiative KfW ParNotes were launched at the beginning of 2004. In cooperation with commercial banks, cooperative banks and savings banks KfW offers the notes to retail investors on a weekly basis and at current market conditions. This is in reaction to retail investors' growing demand for fixed-income products.

IT-INTEGRATION WELL ADVANCED.

PRODUCT AND INFRASTRUCTURE INTEGRATION SUCCESSFULLY REALIZED.

We began integrating the technical infrastructure and application systems of KfW and DtA before the Promotional Banks Restructuring Act came into force. After successfully coupling the long-distance networks the main applications in office communication and telephones were made available for all locations at an early stage. So important stages were realized and synergies could already be utilized in 2003.

The new business for nearly all the products of KfW Mittelstandsbank, particularly the newly introduced Unternehmerkredit (entrepreneurial loan), has been handled since September 2003 in a uniform IT system. A rating process for business start-ups was added to the loan processing system of KfW Bankengruppe, so allowing the credit standing of this group of customers to be adequately assessed and the legal requirements to be met.

The work to support the new mezzanine product family "Unternehmerkapital" (entrepreneurial capital), which combines the former products of KfW and DtA and went into operation on 1 March 2004, has largely been completed.

The combination of the funding business of KfW and DtA was successfully completed by migration to the joint technical platform Summit.

Work has also started on integrating the data stocks of DtA into the application systems of KfW Bankengruppe. The aim here is to achieve full migration of the data in 2004. The first step was taken in 2003 when the data of KfW and DtA business partners was combined in a uniform IT system.

MORE TRANSPARENCY AND EFFICIENCY THROUGH RATING COOPERATION.

Developing and implementing the internal rating applications of KfW has created modular and parametrical rating solutions. They can be used in the form of web services, independent of location and institute, through coded Internet links. This service is being offered to promotional banks as part of rating cooperations. As a joint rating platform the service not only enables costs to be saved in developing rating procedures, it also provides greater transparency and efficiency.

INTERNET LINK TO THE MAINFRAME COMPUTER SYSTEM.

The possibilities of external links to IT applications in investment lending were further extended.

As part of the project "Expanding the IT Infrastructure for Web Applications" a link infrastructure was created between the Internet on the one side and KfW's processing and information systems on the other, using the very latest information technology.

With the successful implementation of the project external customers can use KfW's internal services through Internet applications. First they must sign a user contract with KfW. "Loan Application on the Internet – Reply Service" and "Rating Cooperation with State Promotional Institutions" will be the first business applications available through these new services in 2004.

As part of the project the appropriate base infrastructure was migrated to the host (main) computer. This greatly increases the availability and scalability of Internet applications for internal and external uses – taking due account of modern security directives. Hence it constitutes strategic positioning in this area.

NUMERIX FINANCIAL MATHEMATICAL SOFTWARE INTRODUCED.

The successful connection of the NumeriX financial mathematical software to the Summit trading system has enabled KfW to value complex and exotic OTC transactions independently and on a mark-to-market basis. This has further extended KfW's capacity of valuating derivatives and fulfilled an important prerequisite for the conversion of the accounting to the IAS standards.

WELL PREPARED FOR THE NEW TASKS.

THE DEVELOPMENT IN PERSONNEL AND PERSONNEL STRUCTURE.

At the end of 2003 KfW employed 3,325 people, compared with 2,264 in 2002. That was again in increase of almost 50 % over the previous year which was mainly due to the merger with Deutsche Ausgleichsbank (DtA).

The transfer of business brought 974 DtA staff to KfW on 21 August 2003, and for a time the number employed was 3,336. This peak number had been reduced slightly by the end of the year although more staff had been recruited, and after adjustment for the effects of the merger the growth in the number employed was 3.8 %. Consequently, staff growth was on the previous year's level (+ 3.4 %).

The growth in personnel was also evident in the staff and lending departments of KfW Förderbank and KfW Mittelstandsbank. Most of the staff required for the new KfW IPEX-Bank had to be recruited on the labour market. The staff in KfW Entwicklungsbank remained almost unchanged.

The share of staff on performance-related contracts in KfW has fallen noticeably with the merger and is now 57.5 % (68.2 %). As in 2002 the share of women rose slightly, to 48.6 % after 48.3 %, as has the share of women among staff on performance-related pay, which now account for 37.0 % after 36.7 %. The potential assessment procedure developed four years ago and the special promotion of qualified women again increased the share of women in management posts, which rose to 19.9 % from 16.5 %.

The share of severely handicapped personnel has fallen by 0.2 % to 5.4 %. Nevertheless, with its commitment to the integration of the severely handicapped KfW is still clearly above the legal requirement of 5 %.

EQUAL OPPORTUNITIES PLAN.

In cooperation with the Equal Opportunities Officer KfW passed an Equal Opportunities Plan in accordance with the requirements of the Equal Opportunities Law. It replaces the former Promotion of Women Plan. The Plan identifies the areas where women are under-represented, and this includes both higher income groups and posts with managerial responsibilities. The share of women in these two areas has clearly improved, but they are still under-represented. The Equal Opportunities Plan and the Equal Opportunities Officer are an important corrective here for further personnel policy measures.

ENVIRONMENTAL REPORT 2003.

Last October the Environment Report 2003 of KfW Bankengruppe was published. It provides information on environmentally-relevant developments in every area of KfW's business, and includes DEG for the first time. The approval by an external auditor, PwC Deutsche Revision AG, is new.

As part of the merger with DtA environmental protection was made statutory as an independent promotional task in the amendment to the KfW Law. In addition, KfW Bankengruppe has undertaken to promote environmental protection as an area of sustained development with the means available to it as a bank. KfW's environmental management system will provide the appropriate "tools", with environmental guidelines for every area of business, and shortly for the technical operation of the buildings as well.

For those requiring more details the Environment Report gives more information on KfW's environmental management system, and a list of all the addresses to contact with further questions.

PERSONNEL DEVELOPMENT AND ASSESSMENT.

KfW offers its staff an extensive internal advanced training programme, with a total of 360 internal further training courses and events on special skills, social and management competence in 2003. This tuition was supplemented with a large number of language courses covering altogether eight foreign languages. The staff also had the opportunity to take part in external events like conferences, specialised meetings and seminars.

As well as standard advanced training courses a growing number of individual courses are being designed for departments, teams and individual members of staff. The potential assessment procedure enables individual development plans to be drawn up, so that individual staff members can be promoted and prepared for management tasks. In 2003 50 female staff members registered for the potential assessment. 59 men and women were assessed by their superiors. 53 had the potential interview and 48 attended the potential development workshop. Eight deputy heads of department went through the procedure for future department heads.

CHANGE MANAGEMENT IN KFW.

Change management was initiated through the Tempo project in the regional departments. It is now well established throughout KfW as an instrument for the implementation of major projects. In 2003 the IPEX project was started to separate KfW IPEX-Bank, a new KfW subsidiary that will operate in the market as an export and project finance bank. Workshops were held on management and staff level to accompany the changes.

First a large-scale survey was carried out in which the staff were asked both for their opinion of the project and their concerns in connection with the changes. The results of the survey formed one of the bases for workshops, which gave the staff the opportunity to discuss the questions that concerned them with their superiors. That process will continue in 2004 with the following aims:

- To create uniform understanding of the new management roles
- To initiate and accompany team building processes
- To establish workable interfaces.

The integration of the DtA staff was also monitored by request of the managers of the "Confidence-Integration-Perspectives" project. For the first time 14 men and women on the staff of KfW and the former DtA were trained and employed as integration monitors. They acted as interfaces between the project managers and the staff for information and communication about the merger. On the basis of a staff survey, the Talks with Female Colleagues, the integration monitors identified a number of measures that would promote integration. As a result of the survey strategy and integration workshops were held for the areas particularly affected by the merger, as were regular management briefings and a series of lectures entitled "The Business Areas of KfW Introduce Themselves".

KFW MANAGEMENT FEEDBACK.

In autumn 2002 KfW launched the pilot phase of KfW management feedback. This is a 270° all-round assessment for management staff, in a procedure that was developed by the Personnel Department together with the management staff. Management staff can now face the feedback from their staff, junior management staff, colleagues and internal "customers", as well as interface partners, and compare this verdict with their self-image. The focus is on assessment by junior staff. The first 20 management staff have already held feedback workshops with their teams. The aim is for senior and junior staff to work together to optimize their cooperation and communication. The managers can also utilize the results of the workshops for their own individual development.

The staff give their assessment in the form of a questionnaire that reflects the various aspects of management, cooperation and communication.

The pilot phase with the 24 "pilots" and their teams ends in January 2004. Then the instrument will be offered to managers and their teams throughout the bank. That is a further step to strengthen internal communication. The feedbacks should be seen as a positive opportunity. This is in keeping with the new corporate model of KfW.

HIGHER EXPENDITURE ON PERSONNEL.

Total expenditure on personnel rose by 5.8% to EUR 277.3 million (EUR 262.0 million). Wages and salaries rose by 7.6% to EUR 202.9 million (EUR 188.6 million). Social insurance expenditure rose by 11.7% to EUR 29.7 million (EUR 26.6 million). Expenditure on pensions was EUR 40.1 million (EUR 44.4 million). EUR 19.1 million (EUR 17.3 million) was paid out to pensioners and surviving dependants.

PROMOTING YOUNGER STAFF.

KfW again directed special attention to the further training and promotion of its staff, and to obtaining well qualified recruits. 31 apprentices (22) started their occupational training in the bank during the year under review. At the start of the new training year, in the autumn of 2003, altogether 92 apprentices (63) were in their first occupational training. Twenty-four of these were from the former DtA. As a contribution to the federal government's training campaign in 2003 KfW created three additional training places after the start of the training year and filled them quickly.

Young people in the new federal states still have great difficulty in finding a training place in their immediate neighbourhood. So for years KfW has given special attention to applications from the new federal states when filling training places, and they account for half of all the apprentices.

In the course of the financial year 90 (61) young academics took part in our internal trainee programmes, most of which are one-year. The strong increase was due to the special needs of the new KfW IPEX-Bank. More than half the trainees were for future placement as loan officers. The others are being prepared for their future work as project managers in KfW Entwicklungsbank or as officers in the various staff departments.

At the end of the year KfW employed altogether 92 apprentices and 46 trainees. The total in the previous year was 107.

THE "OCCUPATION AND A FAMILY" AUDIT.

In 2001 KfW was awarded the basic certificate for the "Occupation and a Family" audit. The audit assesses the number of family-oriented measures and further targets for a family-conscious personnel policy during the next three years.

Family-friendly measures in the bank include a kindergarten, which celebrated thirty years of operation in 2003. They also include the Agreement on Family and a Career which offers possibilities of job release that go far beyond the statutory parental leave.

The more far-reaching targets will be largely met in good time for the repeat audit in summer 2004. A new regulation on flexible working time and flexible workplaces has been implemented. Working time has been made very much more flexible, firstly by dropping the core working time rule, and the strict rule on presence, and replacing these with customer-oriented time in the bank. Secondly, longer periods of working time recording are now allowed, as is occasional work at home.

For the first time the bank offered temporary home office jobs, and these were tried out in almost every area of the bank's business. The staff on these jobs work entirely or largely at home with only a few contact days in the bank. In return they give up a permanent office desk of their own, which again saves them long commuting time to KfW. There are about 40 home office jobs, most of which are taken by women, particularly women with young children.

In addition a family service has been set up. It is run by a private organisation which helps parents to find a suitable form of child care or care for elderly family members. A staff survey showed that support with child care is particularly needed in exceptional cases, e.g. when the kindergarten is closed and the child minder is ill. The family service can help here with a kindergarten which the organisation has set up.

Looking after very small children is a particular problem, as there are still not enough places in crèches and nurseries. KfW is planning to cooperate with the City of Frankfurt and the Deutsche Bundesbank to set up a joint child care facility, where very young children of KfW and Deutsche Bundesbank staff can be looked after with "city district" children. The nursery will be run by an association that will be supported financially and conceptually by the banks and the City of Frankfurt.

As part of the Occupation and a Family project the reasons why so few women have entered the potential assessment procedure were examined. Participation in this procedure is an essential condition for a management career in KfW. The main reasons were found to be a lack of information and gender-specific differences in behaviour. With the provision of more information on the Intranet, and particularly with management training, the number of women participating in the potential assessment has clearly increased. That is an important contribution to promoting women in the bank and to establishing equality of opportunity.

With its family-conscious personnel policy KfW is increasing the motivation of its staff and also binding them to the bank while on parental leave. It is also making the bank more attractive on the labour market.

THANKS TO THE MEN AND WOMEN OF OUR STAFF, THE EQUAL OPPORTUNITIES OFFICER AND THE STAFF COUNCILS.

Our acknowledgement and thanks go to all the men and women of our staff, who have worked with commitment and success for the concerns of KfW. Their achievement has made an important contribution to KfW's promotional work.

We discussed the current personnel, social, organisational and economic issues at regular meetings with the appropriate Staff Council, and with the Equal Opportunities Officer. All involved have worked with commitment within their mandate for the interests of the staff. We thank the General Staff Council, the local Staff Councils and the Equal Opportunities Officer for the good and objective cooperation in a spirit of confidence during the past year.

IN MEMORIAM.

We regret to announce the deaths of Gisela Scior and Christiane Wiesel of our staff in 2003, and the deaths of our pensioners Frieda Brodziak, Carola Burck, Lieselotte Buro, Peter Eisenreich, Gisela Ottenberg, Lina Pascolo, Dr. Kurt Falch, Walter Grüner, Fritz Knecht, Hans Kramer, Gerd Roos, Dr. Rudolf Schröder and Kurt Zühlsdorff. We shall always remember them with gratitude.

THE SITUATION OF KFW AND KFW BANKENGRUPPE IN 2003.

SURVEY.

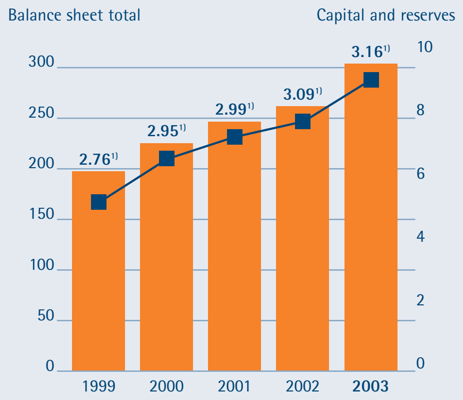
The year under review was marked by the merger of Deutsche Ausgleichsbank (DtA) onto KfW. The transfer of the assets of DtA to KfW was effected retroactively as of January 1, 2003. For better comparability, the previous year's figures were aggregated in the individual and consolidated financial statements. Exceptions are mentioned specifically. The merger changed the composition of the KfW group, which comprised the following subsidiaries at the end of 2003:

- Finanzierungs- und Beratungsgesellschaft mbH (FuB)
- KfW International Finance Inc. (KfW-Finance)
- DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG)
- KfW Beteiligungsholding AG
- tbg Technologie-Beteiligungs-Gesellschaft mbH (tbg)
- gbb Beteiligungs-AG (gbb)

In addition, IKB Deutsche Industriebank AG is included in the consolidated financial statements as an associated enterprise. As before, the development of the group described in this Report on the Situation is mainly determined by the financial statements of KfW.

During the business year under review the balance-sheet total of the group increased by EUR 10.1 billion (3 %) to EUR 313.9 billion. The continued high demand for domestic investment loans, in particular, brought loans and advances to banks up by EUR 7.2 billion, or 5 %. Holding arrangements with the German government made for an increase in shares and other non-fixed income securities of EUR 5.5 billion (44 %) to EUR 17.8 billion. The rise was counteracted by the mainly currency-related decline in loans and advances to customers by EUR 3.1 billion (3 %) to EUR 90.9 billion.

As a result of the asset securitisation transactions conducted in 2003, which led to an increase in guarantees to EUR 51 billion, the volume of business rose substantially to EUR 402.3 billion.

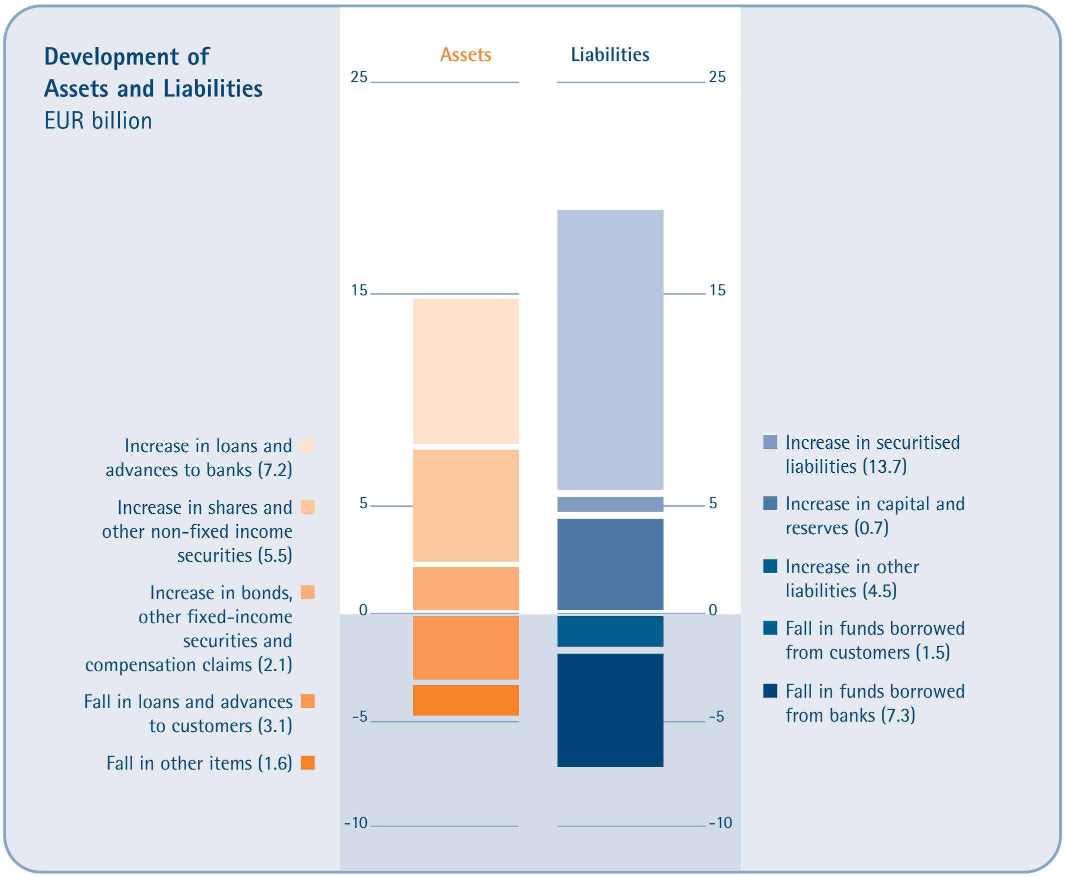


Balance Sheet Total, Capital and Reserves Equity Ratio
EUR billion

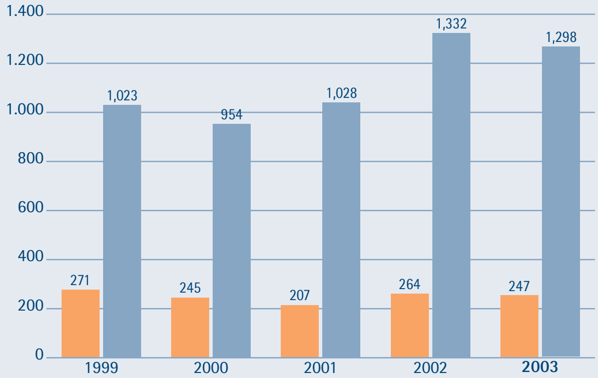
- Balance sheet total
- Capital and reserves

[1)] Equity ratio in percent.

1999–2002 figures without DtA



The satisfactory results for KfW Bankengruppe were influenced by divergent developments in 2003. The group's income from current operations before risk provision reached EUR 1,298 million, which is EUR 139 million below last year's figure. One major reason for the decline is interest income, which was influenced by the weaker US dollar and one-time effects in the previous year. Another reason is the rise in administrative expenses due to increased project activities (IAS, Basel II, the merger with DtA, the separation of KfW IPEX-Bank). At the same time the result from risk provisions and valuations was EUR 140 million lower. Despite additional charges resulting from the standardised risk assessment introduced throughout the group in the context of the merger with DtA, the situation improved because of better country ratings and the weaker US dollar. Overall, as in previous years, careful account was taken of all identifiable risks. After risk provisions/valuations the KfW Bankengruppe achieved a net income for the year 2003 of EUR 247 million, which is marginally lower than the previous year's figure of EUR 264 million.



Operating result before risk provisions and net income

EUR million

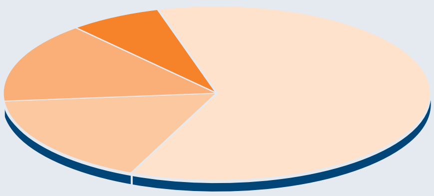
- Net income
- Operating result before risk provisions

1999–2002 figures without DtA

THE VOLUME OF LENDING.

The volume of lending of KfW Bankengruppe (loans and advances, including loans on a trust basis and guarantees) rose to EUR 295.2 billion (previous year: EUR 277.0 billion). This increase is mainly the result of the rise in guarantees by EUR 16.6 billion (to EUR 51.0 billion), which is due to the expansion of the securitisation of SME and housing loans. This is a share of 17 % of the total lending volume. In addition, investment loans granted to the German economy rose by EUR 7.2 billion. The share in the group lending volume declined slightly to 61 %.

The volume of export and project finance, which accounted for 14 % of the lending volume, fell by EUR 4.8 billion (11 %), especially due to the lower US dollar exchange rate. Loans to promote the developing countries (7 % of the volume of lending) remained almost constant.



Volume of lending 2003

	2003	2002
Investment finance	**61 %**	63 %
Guarantees	**17 %**	12 %
Export and project finance	**15 %**	17 %
Promotion of the developing countries	**7 %**	8 %

Generally, the on-lending banks bear the risks on domestic investment loans. The greater part of the risks on export loans is limited by gurantees of the federal government and risk participations by commercial banks. Agreements with the federal government largely exclude the risks to KfW on loans to promote the developing countries. Any acute or latent risks to KfW on loan commitments made at the bank's own risk are covered by appropriate loan loss provisions, allowances made according to conservative principles and the fund for general bank risks.

In 2003 as well KfW granted some borrowers easier repayment conditions by consolidating or rescheduling loans on the basis of bilateral and multilateral consolidation agreements. The amounts on claims under guarantees totalled EUR 832 million (previous year: EUR 805 million). During the year under review non-performing loans of EUR 628 million (2002: EUR 293 million) were written off, of which claims on domestic borrowers accounted for EUR 254 million (2002: EUR 106 million).

Volume of Lending of KfW Bankengruppe 2003
EUR million and %

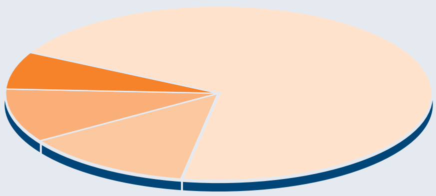
	Dec. 31, 2003	Dec. 31, 2002	Change	
	EUR million	EUR million	EUR million	in %
Promotion of the German economy				
Investment finance	180,398	173,208	7,190	4
Export and project finance	42,345	47,102	– 4,757	– 10
Loans to promote the developing countries	21,417	22,292	– 875	– 4
Other items				
Other promotional loans	62	83	– 21	– 25
Guarantees	51,026	34,423	16,603	48
Total volume of lending	**295,248**	**277,108**	**18,140**	**7**
of which: Loans on a trust basis	8,047	8,259	– 212	– 3

FUNDING.

The main source of funds for the group is the capital market. The borrowed funds were raised mainly by issuing bonds and notes (70 % of borrowed funds); the funds rose by EUR 13.6 billion or 8 %. Of this, EUR 44.4 billion was issued by KfW Finance. The share of funds borrowed from banks and customers (without federal funds) fell from 19 % to 17 %. The funds provided from the federal budget and the ERP Special Fund amount to 13 % of borrowed funds (after 15% in the previous year).

Borrowed Funds 2003
EUR million and %

	Dec. 31, 2003	Dec. 31, 2002	Change	
	EUR million	EUR million	EUR million	in %
Federal Republic of Germany				
ERP Special Fund	22,782	26,781	– 3,999	– 15
Federal budget	14,808	14,785	23	0
	37,590	41,566	– 3,976	– 10
Other lenders	19,680	17,200	2,480	14
Funds borrowed from customers	57,270	58,766	– 1,496	– 3
Funds borrowed from banks	27,469	34,823	– 7,354	– 21
Bonds issued	104,525	109,304	– 4,779	– 4
Bearer securities (incl. Kassenobligationen and Commercial Paper)	86,805	68,294	18,511	27
Accrued interest	3,225	3,339	– 114	– 3
Bonds and notes	194,555	180,937	13,618	8
Total	**279,294**	**274,526**	**4,768**	**2**



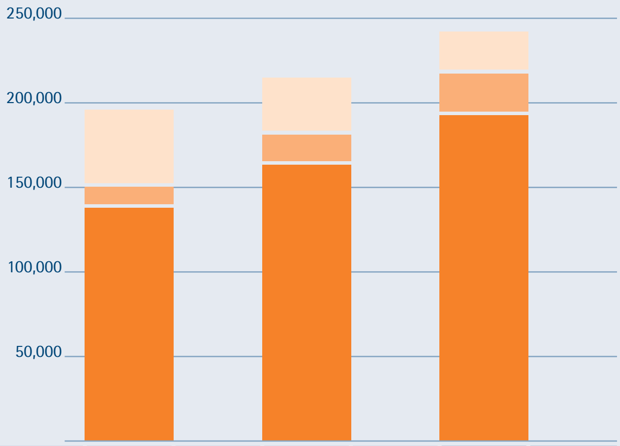
Total EUR 241,7 (233,0) billion

Borrowed Funds 2003

	2003	2002
Securitised liabilities	70 %	66 %
Federal Government/ERP	13 %	15 %
Banks	10 %	13 %
Other lenders	7 %	6 %

The share of funds raised in the money and capital markets remained almost unchanged from the previous year at 79 % or EUR 241.7 billion, after 79 % or EUR 233.0 billion.

Funds raised in the Money and Capital Markets 2003
EUR million



Numbers 2001 without DtA

	2001	%	2002	%	2003	%
Funds borrowed from banks	44,557	23	34,823	15	27,469	11
Funds borrowed from customers	10,099	5	17,200	7	19,693	8
Bonds issued	141,942	72	180,937	78	194,555	81

CHANGES IN OTHER MAJOR BALANCE SHEET ITEMS.

The holding of money market paper, bonds and debentures of other issuers remained almost constant at EUR 20.9 billion. The majority of the securities are held to ensure constant liquidity for KfW. These securities are assigned to the Treasury securities portfolios, which are maintained mainly in euros, but to a small extent in US dollars and pounds sterling as well. The securities in the EUR portfolio can be used as collateral in funding operations with the European Central Bank, and this applies to 95 % of the total portfolio of money market paper, bonds and debentures. In addition to its Treasury securities portfolios KfW holds a portfolio of asset-backed securities in connection with its securitisation activities. Besides these portfolios, which it administers itself, KfW also holds externally administered special funds and money market funds, which are shown in the item Shares and other non-fixed income securities. They total EUR 3.7 billion and are held for liquidity purposes.

For the purpose of supporting the price of its own issues KfW held EUR 5,146 million par value of its own bonds at the end of the year (EUR 3,012 million in the previous year). This was 2 % of the bonds and notes issued by KfW Bankengruppe.

In 2003, the shares held by KfW Bankengruppe increased by EUR 5.5 billion to EUR 17.8 billion. This is mainly due to the purchase of shares of Deutsche Telekom AG and Deutsche Post AG in the course of the further privatisation of these companies. In the context of the acquisition of these shares the federal government has granted a subordinated loan of EUR 500 million to KfW.

The major part of the prepaid expenses and deferred charges is interest expenditure for leasing obligations in project finance applicable to the following period. The item also includes borrowing expenses (discounts and placing commissions) and interest on retentions.

Provisions declined by EUR 264 million against the previous year. Of the allocations (EUR 290 million) EUR 94 million is provisions for staff pensions and EUR 186 million is mainly unsettled bank operating and payroll expenses and provisions made in the field of private equity finance of tbg. EUR 167 million was used while EUR 197 million was returned to income. For the purpose of harmonisation of balance sheet reporting in the context of the merger of DtA and KfW allowances for possible loan losses of EUR 185 million were transferred to the provisions for loans and advances to banks and customers.

EQUITY CAPITAL.

The group's capital and reserves (subscribed capital, reserves and fund for general bank risks in accordance with § 340 g of the German Commercial Code) amount to EUR 9.9 billion. The increase of EUR 665 million (7 %) results from the allocation of EUR 47 million to the reserves from the ERP special fund, the allocation of KfW's net income of EUR 232 million to the special reserves and the increase of EUR 16 million in the other reserves from profits through the inclusion of the subsidiaries and the capital consolidation. EUR 370 million was added to the fund for general bank risks in accordance with § 340 g of the German Commercial Code. KfW's capital and reserves are EUR 9.4 billion. The requirements on equity capital and reserves for banks operating internationally are still well fulfilled by KfW and the group.

Equity Capital
EUR million

	Dec. 31, 2003	Dec. 31, 2002	Change
KfW's subscribed capital	3,750.0	3,750.0	0.0
Outstanding contributions of KfW, not requested	-450.0	-450.0	0.0
Capital reserves	1,603.8	1,603.8	0.0
Reserve from the ERP Special Fund	606.5	559.1	47.4
Retained earnings			
a) Statutory reserve under § 10 (2) KfW Law	618.4	480.8	137.6
b) Statutory reserve under § 10 (3) KfW Law	1,235.3	1,141.1	94.2
c) Statutory reserve under § 17 (4) DM Balance Sheet Law[1]	47.6	47.6	0.0
d) Other retained earnings	527.5	512.0	15.5
Fund for general bank risks under § 340 g HGB	2,000.0	1,630.0	370.0
Total	9,939.1	9,274.4	664.7

[1] To be adjusted for the special loss account shown on the Assets side in accordance with § 17 (4) of the D-Mark Balance Sheet Law (EUR 27.0 million).

EARNINGS POSITION.

Earnings Position 2003
EUR million and %

	2003	2002	Change	
	EUR million	EUR million	EUR million	in %
Interest income[1]	11,881	12,694	– 813	– 6
Interest expenses	10,312	11,031	– 719	– 7
Interest received, net	1,569	1,663	– 94	– 6
Commisions received, net	150	164	– 14	– 8
Net earnings on financial transactions[2]	12	– 12	24	– 207
General administrative expenses	576	519	57	11
Other operating income and expenses	143	141	2	1
Income from current operations before risk provisions/ valuations	1,298	1,437	– 139	– 10
Risk provisions/ valuations, net[3]	– 987	– 1,127	140	– 12
Income from current operations (= income on normal business transactions)	311	310	1	0
Contractual allocation of interest to the reserve from the ERP Special Fund	47	34	13	38
Taxes on income and profits	17	12	5	–
Net income for the year	247	264	– 17	– 6

[1] Balance of interest income on lending and money market transactions, fixed-income securities and debt register claims and current income from shares and other non-fixed income securities and investments.
[2] Balance of gains and losses on currency conversion.
[3] Including write-downs on the special loss account and allocation to the fund for general bank risks in accordance with § 340 g HGB.

The group's income from current operations before risk provisions and valuations rose by EUR 139 million (10 %) from the previous year to EUR 1,298 million (KfW: increase of EUR 97 million or 7 % to EUR 1,253 million).

The main reason was the decrease of EUR 94 million (– 6 %) in net interest received by KfW. The main reasons for this development was the weaker US dollar and the one-time effects which had influenced last year's figures (loan reschedulings and extraordinary payouts in the context of DEG project financing). DEG's share in the net interest received by KfW Bankengruppe is EUR 102 million (– EUR 20 million or 16 %).

Net commissions received fell by EUR 14 million (8 %) to EUR 150 million. The main reason for this were higher expenses under counter-guarantees as well as the decline in commissions earned and handling charges earned in the lending business. The decline was counteracted by higher commissions earned on guarantees, as a result of substantially higher asset securitisation volumes.

Administrative expenses rose by EUR 57 million (11 %) to EUR 576 million (KfW: increase of EUR 44 million or 10 % to EUR 488 million). This includes a rise in personnel expenditure of EUR 14 million (5 %) to EUR 323 million as a result of the growth in the number employed and adjustments of wages and salaries for staff on collectively agreed rates and performance-related rates. The increase in expenditure on material and equipment of the group was mainly influenced by the special depreciation allowance for a building of gbb Beteiligungs-AG. Other major factors that contributed to this development were expenses for IT and advisory services in the context of projects aimed at fulfilling regulatory and legal requirements (in particular Basel II and IAS) as well as projects related with the merger with DtA and the separation of KfW IPEX-Bank.

Administrative Expenses 2003
EUR million and %

	2003	2002	Change	
	EUR million	EUR million	EUR million	in %
Wages and salaries	238.6	222.7	15.9	7.1
Social security contributions	39.8	34.5	5.3	15.5
Expenses for pensions and support	44.7	51.9	– 7.2	– 13.9
Expenditure on personnel	323.1	309.1	14.0	4.5
Other administrative expenses	185.7	168.5	17.2	10.2
Depreciation on buildings and equipment	67.1	41.7	25.4	60.9
Expenditure on material and equipment	252.8	210.2	42.6	20.3
Administrative expenses	**575.9**	**519.3**	**56.6**	**10.9**

Risk provisions and valuations as a whole fell from the previous year by EUR 140 million and are shown at EUR 987 million. Risk provisions are calculated by KfW according to a risk monitoring system which covers all the risks recognizable on the balance sheet date – mainly address risks – and which always applies prudent valuation standards. All business transactions of DtA were equally included in these valuation standards. Provision was made for all expected losses in the group in the form of specific and general allowances. Here KfW mainly provided for acute risks in aircraft and private equity finance, though some relief resulted from the development of the US dollar exchange rate. The situation also improved due to better country ratings. The fund for general bank risks, which is disclosed in the balance sheet, was also increased by EUR 370 million, bringing it to EUR 2,000 million. This ensures that KfW is also adequately secured against unexpected losses that can arise from the special risk structure in the fields of domestic SME and private equity finance and long-term export finance. At the same time, a transparent description of this part of risk provision is provided in anticipation of the planned transition of the group accounting to the International Accounting Standards.

Due to the overall minor changes in valuations and allocations to risk provisions the group's income from current operations was EUR 311 million and, thus, again reached the good result of the previous year.

The group's net income for the year is EUR 247 million compared with EUR 264 million in the previous year. KfW's net income for the year is EUR 232 million.

RISK STRUCTURE AND RISK CONTROL.

RISK CONTROLLING AND MANAGEMENT AS A CORE COMPETENCE IN KFW BANKENGRUPPE.

Professional risk management at KfW Bankengruppe is an important prerequisite for the sustainable achievement of its promotional objectives and to enable central secondary requirements (e.g. the level of risk the bank can take) to be met.

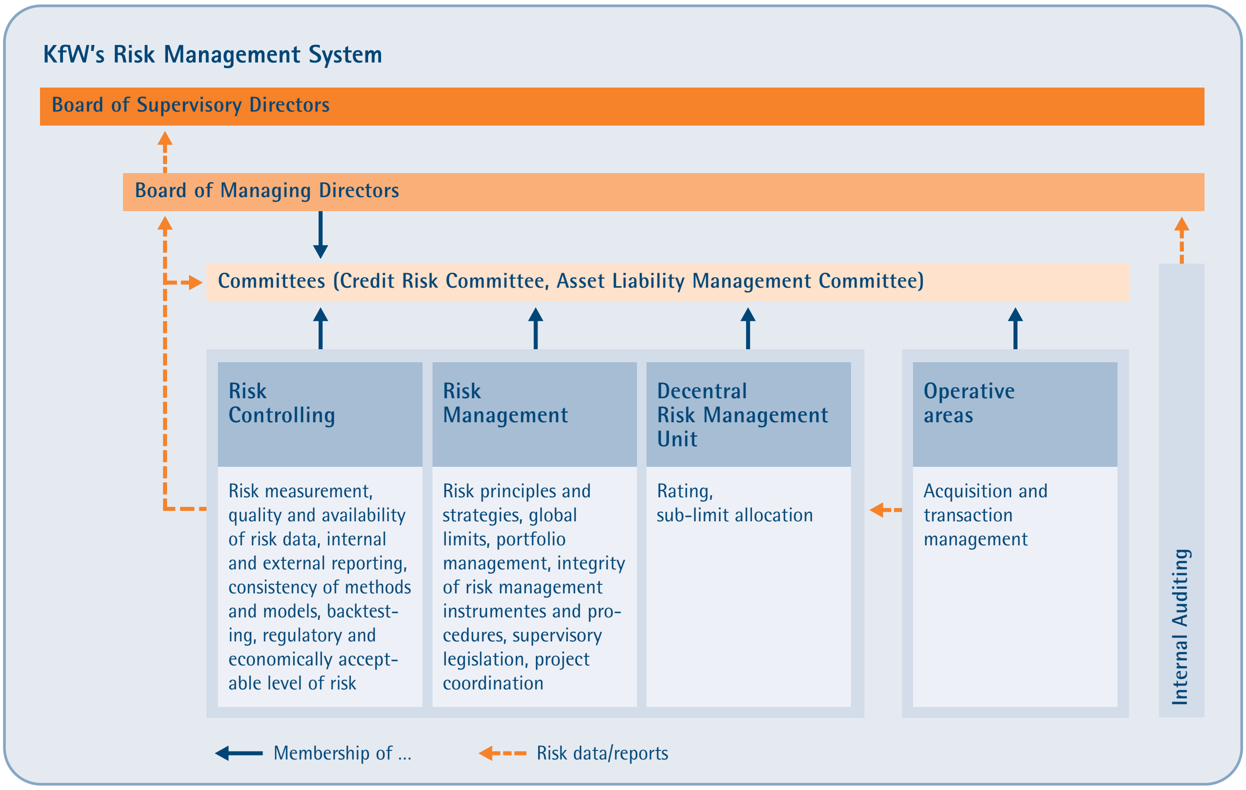
Given the diversified business and project structure of KfW Bankengruppe the development of an adequate risk management organisation is of major importance. The banking supervisory requirements, such as the minimum requirements for lending activities (MaK) and Basel II, constitute an important risk policy framework for KfW Bankengruppe. On this basis, centrally coordinated, internal procedures to identify, measure, control and monitor risks are the core of the group-wide risk management and risk controlling. Modern calibrated instruments and methods allow separate assessment and supervision of the different types of risk, as well as aggregation of all risks throughout the entire group on the basis of a standardised concept. This ensures an acceptable level of risk for KfW Bankengruppe as a whole on the basis of prudent valuation standards. At the same time, coordinated implementation of strategies that tie capital in the individual areas of business and subsidiaries is supported in a transparent manner; hence, this creates the conditions for an active and standardised risk management and risk control system throughout KfW Bankengruppe.

THE FRAMEWORK AND ORGANISATION OF RISK CONTROL.

The organisation of risk control at KfW Bankengruppe must be oriented to external and internal conditions in a basically dynamic environment. In regard to external conditions KfW voluntarily includes the banking supervisory regulations in its concepts, in accordance with its interpretation of its tasks. In this context KfW will apply the MaK regulations from July 2004 to ensure the proper structural and process organisation of the lending business. A milestone plan was worked out last year to ensure that the MaK regulations are implemented at the correct time. The requirements for appropriate instruments of risk supervision and control under the German Banking Law (KGW) will continue to be observed, as will the supervisory requirements on equity capital; both will constitute limiting factors for risk-prone business. The regulations on equity capital requirements are well fulfilled in KfW Bankengruppe.

Internally, developments in the group and in business area structures must also be adequately addressed in risk control. The processes and organisation of risk management were therefore adjusted to the new structures in domestic investment financing during the merger of KfW and DtA. Further adjustments are currently in preparation in view of the planned establishment of KfW IPEX-Bank.

Within this framework the risk controlling process is performed on the basis of internal risk principles, which in turn are based on the definition and identification of risks and the methods of dealing with, controlling and taking risks. They are binding throughout the group.



KfW's Board of Managing Directors lays down the risk policy principles and guidelines as part of their overall responsibility.

The supervisory organs – the Board of Supervisory Directors and the legal supervisory organ – are regularly informed of the group's risk situation. The Board of Supervisory Directors is responsible for current supervision of the conduct of business and the administration of KfW's assets.

A number of committees are involved in KfW's risk controlling. They include the Credit Risk Committee and the Asset Liability Management Committee. Beside the Board of Managing Directors, the risk controlling and risk management departments and operative areas are also represented on them. KfW's risk management and risk controlling are separate departments, and they are functionally independent of the operative loan departments (see diagram).

General supervision of the risks, systems and work processes across all departments in KfW is also constantly performed by our internal auditing department.

For the purposes of risk control reports are regularly presented to the responsible bodies in KfW on the risks entered into and KfW's ability to take risk. In these reports all the various types of risk (credit risk, market price risk, operational risk and others) are quantified for the entire bank and matched against available financial resources. The available financial resources are also compared with future risks over a timescale of five years.

In the committees the current scope for KfW's business policy is assessed on the basis of these reports, and decisions are taken on any risk control measures needed.

The legally independent subsidiaries in KfW Bankengruppe exercise their own control functions within the group-wide risk management system. In DEG, as in KfW, beside the management of individual risks the risks of default and the country risks are analysed and controlled on portfolio level. The credit and private equity exposure is analysed at regular intervals to various criteria (country, sectors) and a risk assessment is made. To ensure a standardised risk assessment and management throughout the group DEG is represented on the relevant KfW bodies and in the projects to reorient credit risk management.

DEVELOPING RISK MANAGEMENT FURTHER.

A central task in 2003 was to incorporate the business of the former DtA, including its private equity companies, in the overall risk assessment and management processes of the group. To ensure consistent risk management throughout the group first the individual risk-bearing items were identified and the rating systems coordinated. A strategy for full harmonisation of the risk management systems and processes was also fixed.

The activities to develop risk management further were continued in 2003. Important milestones were reached for the further improvement of risk assessment and management on the basis of a modern economic risk management concept (economic capital, risk-adjusted return on capital). Last year the main focus was, among others, on working out new methods for assessing the risk of changes in interest rates and a concept for rating project financings. In addition, the planning process was carried out throughout the group for the first time and on the basis of the key management variables. In 2004 the aim is to build up on this and achieve a regular monitoring of the entire bank and the individual fields of business. The consistent further development of risk assessment throughout the group will improve internal transparency on return, costs and the risks of our promotional activities, and it will also reflect the special features of KfW. At the same time, this will meet the requirements of Basel II and MaK.

It is the aim of KfW to have state-of-the-art control of KfW Bankengruppe beyond the adequate application of the supervisory regulations. From the present viewpoint KfW will be able to meet the timetable given through Basel II.

CREDIT RISK.

KfW deliberately enters into credit risks[1] as part of the bank's promotional task. Altogether the credit risk to KfW is limited by guarantees from public authorities and other banks, and by the use of credit derivatives. The risk of default on investments in securities and in derivatives is limited by focussing on counterparties of first-class standing, and by collateral agreements. Moreover, as a promotional bank KfW is subject to prescribed limits, e.g. on its trading activities. KfW enters into particular risks in its export and project financing and it is increasingly enters into risks in the domestic promotional lending business for loans channelled through on-lending banks and in the field of private-equity finance for small and medium-sized firms.

The risk controlling department is responsible for risk supervision. The Credit Risk Committee assesses the current business policy scope for KfW on the basis of this department's work, and works out any risk policy measures needed. It also takes decisions on risk control measures in the portfolio context.

The assessment of the credit risks is made using internal rating procedures. Country risks and individual commercial or project-related risks are assessed separately. The rating procedures used by KfW are based on a uniform, consistent model architecture, and they are designed for relevant customer segments that should be as homogeneous as possible. The procedures are calibrated to the one-year default probability and the consistency of the individual ratings procedures is ensured by showing the default probability on a master scale that is uniform for the entire group. KfW's master scale also enables our rating categories to be compared with those of the major rating agencies. Each master scale class is based on an average default probability which is subject to a back-testing process. There are exact process regulations on the organization of each rating procedure, especially the competences, competence regulations and control mechanisms. By validating the rating procedures in turn and developing them further we ensure rapid response to any changes in framework conditions. As far as can be ascertained today our rating instruments and processes will meet the minimum requirements of future supervisory standards (Basel II).

The management is regularly and quickly informed of the bank's credit exposures that entail higher risks (watch list, NPL List). An independent department to monitor risk-prone exposures guarantees that a unit of specialised credit officers can be involved at an early stage in order to ensure professional management of problem loans.

The specific loan loss provisions are based on the non-performing loans at KfW's own risk[2]. Provision for latent risks is based on the valuation of the loans and advances as part of the annual rating process. Of EUR 39.4 billion loans and advances at the group's own risk during the 2003 business year EUR 3.0 billion are classified as non-performing loans. The potential defaults on these have been conservatively assessed and specific provision of EUR 1.7 billion has been made. Provision of EUR 0.14 billion has also been made for DEG's private equity business.

The outstanding loans on which the group bears a political risk total EUR 29.8 billion and the latent country risks are valued at EUR 1.3 billion. Special risk provision has been made for the country risks.

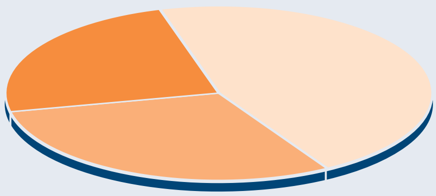
[1] Credit risks are the danger of financial loss that can occur if the borrower or counterparty does not fulfil his obligations. The country risk, which includes transfer, conversion and political risk, is part of the credit risk.
[2] Based on the relevant current Basel II default criteria.

Part of KfW's risk provision is disclosed in the balance sheet in the fund for general bank risks. This practice was continued in 2003, and a further allocation of EUR 0.4 billion was made to the fund for general bank risks, bringing it to EUR 2 billion. In view of the foreseeable change to International Accounting Standards KfW is gradually disclosing its risk provision.

All the loans and advances are conservatively assessed and adequate provision has been made for risks.

Latent Credit Risks for KfW

In % and EUR billion



Total foreign risks 54 % – EUR 2.8 billion

Domestic project risks	46 %	2.4
Foreign project risks	30 %	1.6
Conversion and transfer risks	24 %	1.2

MARKET PRICE RISKS.

Market price risks[3] are classified for the purposes of risk management as risks of changes in interest rates and exchange rates and other price changes. KfW and its subsidiaries are not commercial banks under the Commercial Code, consequently their market price risks are limited to their portfolio of securities.

The market price risks are assessed and controlled in KfW by the Asset Liability Management Committee, which assesses and analyses the positions in interest rates, foreign currencies and derivatives. The main focus is on long-term management of the bank's overall interest rate position.

Loans in foreign currencies are funded in the same currency or secured through appropriate currency hedge instruments. Exchange rate risks mainly occur on foreign currency margins achieved in the lending business.

The risk of changes in interest rates is characterised particularly by the possibility for borrowers in the domestic lending business to repay loans ahead of schedule. To control and minimise the risk of changes in interest rates on such off-schedule repayments KfW to a limited extent enters into open interest positions by undertaking short-term financings on the basis of its interest expectations or by obtaining substitute assets in the form of securities early on.

The risk of changes in interest rates is managed using a standard software that is linked to all the relevant internal and external data. This enables KfW to undertake up-to-date value-at-risk calculations regularly for changes in interest rates and adjust its funding decisions accordingly.

Most of KfW's securities are held in a liquidity portfolio. They are shown as liquid assets and used as liquidity provision for the bank. However, the use of asset swaps largely avoids the risks of price changes on these securities.

3) Market price risks are the potential losses from changes in prices.

During the merger of KfW and DtA the externally managed special funds of the former Deutsche Ausgleichsbank were combined organizationally with KfW's special funds and integrated in KfW's risk management process. Among other things, this enables key risk figures to be calculated regularly through benchmark time series and stress tests to be carried out for the small stock positions contained in these funds.

Last year KfW further extended its securitisation activities in conjunction with a number of other banks. The aim of these activities is to take part of the risk of default on SME and housing construction loans off the handling banks and place them in the capital market. In 2003 securitisation transactions were carried out for the first time with banks in neighbouring European countries. This relieves the handling banks of loan risks. By directly placing these risks in the capital market KfW can in turn minimise its own risks on these transactions. The potential risks of such transctions are very low owing to the restrictive selection of business partners.

For the transaction, handling and accounting of trading operations in accordance with the Minimum Requirements for Trading Activities of Credit Institutions (MaH) the Board of Managing Directors has issued general conditions in line with market standards.

LIQUIDITY RISK.

KfW manages the liquidity risk[4] with a computerised liquidity control system that shows all the bank's liquidity flows to the current date. Liquidity planning is on a daily, monthly and yearly basis. KfW also supervises its liquidity position following the instructions in the KfW Law, and it regularly calculates the key liquidity figures in accordance with Principle II of the German Banking Law (KGW-Grundsatz II). The relevant figures are well above the minimum requirement. KfW also has an adequate stock of liquid securities that as Category I securities are eligible as collateral with the European Central Bank, both for peak borrowing and for regular open market transactions. KfW also holds liquid USD securities as a liquid reserve.

In addition, a balanced medium and long-term liquidity structure is ensured through the management of the interest position performed and controlled by the Asset Liability Management Committee.

[4] The liquidity risk is the risk that current or future payment obligations cannot be met in time, in full or only at very high cost.

OPERATIONAL AND OTHER RISKS.

Besides the typical banking risks the management of operational risks plays an increasingly important role in banking practice and in the development of the banking supervisory instruments (Basel II). As well as the general operating risks these risks chiefly consist of risk from individual events like cases of fraud, computer breakdowns, natural catastrophes and so on.

The operating risks within the group are limited by an internal control system. The IT-system is under permanent development and the business processes are constantly being analysed and optimised. For risks that can arise from unforeseeable events appropriate emergency concepts have been evolved (computer faults) and sufficient insurance cover has been obtained (for fire and water damage etc.)

In 2003 the comprehensive "Operational Risks" project was continued. During the merger with DtA projects that were originally running parallel in the two institutions were combined in order to create uniform solutions within the group. In the comprehensive project work concentrated mainly on continuing to build up a data bank on losses. Among other things, this is to create the basis to enable operational risks to be quantified with greater differentiation and reported more quickly in future, and to orient control more strongly to the causes of these risks.

The group counters the legal risk by involving its own legal department in good time and through close cooperation with external legal advisers in Germany and abroad. Contracts may only be signed on the basis of clear and correctly documented agreements. For the usual business standard contracts (e.g. ISDA contracts) are in use.

The bank's internal auditing department regularly supervises the procedures, systems and work processes. Internal audits are held mainly as part of the assessment of the suitability of risk limitation and supervision in accordance with the regulations in the Minimum Requirements for Trading Activities. The staffing and organisation of the internal auditing department have been adapted to the growing demands. General provision has been made for operational risks.

OUTLOOK.

The Promotional Banks Restructuring Act that came into force on 22 August 2003 also laid down the legal framework in which KfW IPEX-Bank will operate. It will become a legally independent bank in the form of a GmbH (company with limited liability) on 1 January 2008, but remain 100% owned by KfW. In the transition phase it will operate as a "bank within the bank", successively applying processes in conformity with the Minimum Requirements for the Lending Business (MAK) and other regulations on commercial banking business. The planning for the organisation and structure of the new bank are complete and the implementation of the measures began during the year under review.

KfW IPEX-Bank will continue to work in corporate and project finance within Germany in the interests of the German and European economies, and in international export and project financing. The principle of long-term partnership with customers will be maintained, and the bank will work to keep countries and markets open, in critical phases as well, and enable rapid and binding decision-making. The target for new business in 2004 is EUR 8–10 billion.

The bank will continue to focus its business policy consistently on the European area and make finance available for the sectors industry, energy and environmental technology, raw materials, telecommunications, aviation, shipping, rail and road transport and airports and seaports. But the traditional export financing business and project finance in countries outside Europe will still remain key areas of the bank's business as well.

The bank sees its core competence in future, too, in medium and long-term lending. But it will extend its range of products in the next few years and gradually add complementary instruments. These will include shorter-term loans, guarantees, independent leasing finance, acquisition finance and mezzanine products. The fields of business will be developed further and differentiated, in order to utilise specialisation advantages. The syndicating business will play an important part.

The European customer base is also to be widened. The aim here is to reach more larger SMEs, both in Germany and in foreign business. Here, too, we place great value on close cooperation with IKB.

The strategic partnership with IKB is proving very successful. Positive synergy effects have resulted so far, both from cooperation in central areas and in our operative business. During the current year we want to work with IKB to expand our partnership further, with the main focus on cooperation in developing new promotional products and in structured financings. Our series of events "Partners for the SME Sector" will also be continued.

KfW will offer considerable support to firms in Germany in 2004 with its promotional programmes. In the promotional area handled by KfW Mittelstandsbank (KfW SME bank) finance for business start-ups, for small and medium-sized firms and innovation is the main focus. The promotion will be channelled in the form of classical loans, mezzanine capital and private equity. The programmes of the former DtA are integrated in this range of products. To make mezzanine capital available to the entire SME sector the new family of programmes "Unternehmerkapital" (entrepreneurial capital) was launched in March 2004. It is expected to establish mezzanine financing as an instrument of financing for small and medium-sized firms. The programmes to promote private equity will be revised in the course of this year.

The main feature of the business of KfW Förderbank (KfW promotional bank) in 2004 will again be the big special programmes "KfW Housing Modernisation 2003" and the "Special Fund Growth Impulses", which form part of the KfW Infrastructure Programme. Both these special programmes have ceilings and will close in 2004. Other main areas are the environment and climate protection, education and home ownership.

The volume of promotion can only roughly be estimated owing to the many factors that influence it. We assume commitments under our promotional lending programmes to exceed the 2003 level, and to reach at least EUR 35 billion. The lending programmes will be constantly adjusted to the requirements of promotion and the market. Modernising our range of promotion to achieve leaner and more efficient products and developing more risk-differentiated margin systems will be our main aim.

We assume that our securitisation platforms PROMISE and PROVIDE, which are now well established, will be regularly used in 2004 as well to place loan portfolios in the capital market. As the interest in synthetic securitisations has grown in other European countries recently, we expect more demand from European banks. We also endeavour to open up possibilities of active risk management for smaller banks as well, through suitable structuring. A prognosis on the use of the securitisation programmes is very difficult to make, as the German securitisation market is expected to be increasingly affected by the development of the True Sale segment. KfW joined a large number of banks last year in the True Sale Initiative (TSI), in order to further develop the securitisation market, which is still relatively young in Germany.

KfW Entwicklungsbank (KfW development bank) expects commitments totalling EUR 1.6 to 1.7 billion for 2004, depending on the development in the world economy. Expanding development financing through greater use of KfW's own funds will be a central task, besides further optimising the procedures. As there is still insufficient supply of long-term investment capital in most of our partner countries, brisk demand for DEG finance and project-specific structuring continues undiminished, despite the persistence of cyclical and political uncertainties. Against this background DEG is planning to expand its new business to EUR 550 million in 2004.

For 2004 as a whole KfW expects a slightly higher funding need than in 2003, at EUR 50 to 55 billion.

To achieve the desired continuity in the two KfW benchmark programmes a total issue volume of at least 20 billion euros is planned for these two programmes together in 2004. As in the last two years at least three bonds in euros will be floated in the benchmark programme, of which one will be for five years and another for ten years. At least two new bonds will be floated in the benchmark programme in US dollars in 2004. Both programmes will be slightly modified in that the minimum volumes will vary according to the maturity. That will enable KfW to match the bonds even more to market conditions and demand and it will also serve the interest of investors.

Our recourse to the money and capital markets in the different major currencies and the weighting of the products to be offered will be balanced and reliable again in 2004, as in previous years; the amounts will be approximately the same as in 2003. This approach and the excellent position KfW has achieved in the markets will enable us to operate with confidence in 2004 as well.

KfW will take more risks in coming years as well. Against the background of the uncertain economic environment, in Germany and internationally, a systematic risk management is of central importance for KfW.

In order to develop the organisation of risk management in KfW Bankengruppe further, it will be a priority successively to build up risk management and controlling in the future KfW IPEX-Bank and integrate these in group risk management.

KfW is continuing its activities to develop credit risk management further in order to optimise risk control and in view of the expected changes in the supervisory requirements. The projects needed for this have been grouped into a project portfolio, and in the same context, among others, a model for the quantification of loan portfolio risks is being intensively further developed. That will enable the individual commitments and sub-portfolios to be better assessed and steered in future. Further efforts are also needed to fulfil the supervisory requirements. In that context the present risk principles, loan processes and securities valuation and management will be further developed in 2004. KfW is also revising its limit management system with the aim of limiting risk concentration with IT support through global limits applying throughout the group or even reducing this concentration through transactions in the secondary market.

Our operating risks are constantly being minimised through more investment in developing our IT systems and process optimisation. Operational risk control is also being advanced as part of an independent project.

KfW Bankengruppe expects a satisfactory result for 2004 as well, that will permit appropriate allocations to be made to both risk provision and the special reserves.

FINANCIAL STATEMENTS 2003.

Balance Sheet of KfW as per December 31, 2003.

Assets

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Cash reserves							
a) Cash in hand			178			0	
b) Balances with central banks			26,663			26	
of which: with the Deutsche Bundesbank	26,663				26		
c) Balances with postal giro centres			0	**26,841**		0	26
2. Loans and advances to banks							
a) At call			161,176			499	
b) Others			165,157,551	**165,318,727**		157,414	157,913
3. Loans and advances to customers				**90,844,706**			94,476
of which: secured with mortgages	0				0		
of which: municipal loans	30,649,595				27,848		
4. Bonds and other fixed-income securities							
a) Money market paper							
aa) Of public issuers		0				0	
of which: eligible as collateral with the Dt. Bundesbank	0				0		
ab) Of other issuers		242,247	242,247			82	
of which: eligible as collateral with the Dt. Bundesbank	0				0		
b) Bonds and debentures							
ba) Of public issuers		3,165,398				3,183	
of which: eligible as collateral with the Dt. Bundesbank	3,106,933				3,076		
bb) Of other issuers		19,480,262	22,645,660			19,211	
of which: eligible as collateral with the Dt. Bundesbank	17,084,860				16,905		
c) KfW's own bond issuers			3,145,262	**26,033,169**		1,438	23,914
Par value	2,942,753				1,363		
5. Shares and other non-fixed income securities				**17,807,512**			12,330
6. Investments				**29,061**			15
of which: in banks	9,784				8		
of which: in financial services institutions	0				0		
7. Shares in affiliated enterprises				**1,063,736**			992
of which: in banks	306,852				306,852		
of which: in financial services institutions	0				0		
8. Assets on a trust basis				**7,884,822**			8,087
of which: loans on a trust basis	7,882,762				8,084		
9. Compensation claims on public authorities including bonds from their conversation				**128,579**			193
10. Intangible assets				**8,484**			8
11. Tangible assets				**515,160**			527
12. Other Assets				**64,286**			41
13. Deferred income				**3,055,782**			4,115
14. Special loss account consisting of provisions under § 17 (4) of the D-Mark Balance Sheet Law				**27,019**			27
Total assets				312,807,884			302,664

Liabilities and Shareholders' Equity

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Funds borrowed from banks							
a) At call			141,065			1,071	
b) With agreed terms or periods of notice			27,182,220	**27,323,285**		33,531	34,602
2. Funds borrowed from customers							
a) Savings deposits			0			0	
b) Other funds							
ba) At call		238,392			578		
bb) With agreed terms or periods of notice		101,424,953	101,663,345	**101,663,345**	123,286	123,864	123,864
3. Securitised liabilities							
a) Bond issues			150,162,632			115,831	
b) Other securitised liabilities			0	**150,162,632**		0	115,831
4. Liabilities on a trust basis				**7,884,822**			8,087
of which: loans on a trust basis	7,882,762				8,084		
5. Other liabilities				**8,640,929**			3,567
6. Deferred income				**6,438,131**			6,806
7. Accrued estimated liabilities							
a) Accrued pension liabilities and similar obligations			515,893			483	
b) Others			264,939	**780,832**		622	1,105
8. Obligatory charges under the D-Mark Balance Sheet Law				**2,336**			40
9. Subordinated liabilities				**500,000**			0
10. Fund for general bank risks				**2,000,000**			1,630
11. Equity Capital							
a) Subscribed capital		3,750,000				3,750	
Outstanding contributions, not requested		(450,000)				(450)	
Paid-in subscribed capital			3,300,000				
of which: requested	0				0		
b) Capital reserves			1,603,764			1,604	
Allocation	0				702		
c) Reserve from the ERP Special Fund			606,500			559	
Contractual appropriation of interest	47,411				34		
d) Retained earnings							
da) Statutory reserve under § 10 (2) of the KfW Law		618,428				481	
db) Special reserve under § 10 (3) of the KfW Law		1,235,273				1,140	
dc) Special reserve under § 17 (4) of the D-Mark Balance Sheet Law		47,607	1,901,308	**7,411,572**		48	7,132
Total liabilities				312,807,884			302,664
1. Contingent Liabilities							
a) On bills discounted and charged		0				0	
b) On guarantees		51,003,653				34,405	
c) Liability under collateral provided for third party liabilities		0	51,003,653			0	34,405
2. Other obligations							
a) Repurchase obligations on non-genuine purchase transactions		0				0	
b) Placing and underwriting obligations		0				0	
c) Irrevocable loan commitments		36,813,806	36,813,806			33,237	33,237

Statement of Income of KfW for the period from January 1 to December 31, 2003.

Expenses

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest expenses				**10,303,941**			11,022
2. Contractual appropriation of interest to the reserve from the ERP Special Fund				**47,411**			34
3. Commissions and similar charges payable				**301,895**			268
4. Net expenditure on financial transactions				**–**			13
5. General administrative expenses							
a) Expenditure on personnel							
aa) Salaries and wages		202,920				189	
ab) Social security contributions and expenditure on pensions and support		74,332	277,252			73	
of which: for pensions	40,099				44		
b) Other administrative expenses			167,398	**444,650**		144	406
6. Depreciation and value adjustments on intangible assets and fixed assets				**43,346**			38
7. Other operating expenses				**69,417**			25
8. Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses				**521,034**			1,061
of which: allocation to the fund for general bank risks	370,000				430		
9. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				**425,169**			–
10. Losses absorbed under profit and loss transfer agreements				**27,139**			16
11. Extraordinary expenses				**0**			27
12. Write-downs on the special loss account under § 17 (4) of the D-Mark Balance Sheet Law				**217**			6
13. Net income for the year				**231,756**			220
Total expenses				**12,415,975**			**13,136**

Income

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest income from							
a) Lending and money market transactions			10,937,100			11,671	
b) Fixed-income securities and debt register claims			756,808	**11,693,908**		859	12,530
2. Current income from							
a) Shares and other non-fixed income securities			53,849			16	
b) Investments			200			0	
c) Shares in affiliated enterprises			0	**54,049**		6	22
3. Commissions and similar service charges earned				**453,289**			426
4. Net earnings on financial transactions				**13,489**			–
5. Earnings on allocations to investments, shares in affiliated enterprises and securities treated as fixed assets				**–**			15
6. Other operating income				**201,240**			143
Total income				**12,415,975**			**13,136**

Balance Sheet of KfW Bankengruppe as per December 31, 2003.

Assets

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Cash reserves							
a) Cash in hand			182			0	
b) Balances with central banks			26,663			26	
of which: with the Deutsche Bundesbank	26,663				26		
c) Balances with postal giro centres			0	**26,845**		0	26
2. Loans and advances to banks							
a) At call			171,135			517	
b) Others			165,407,035	**165,578,170**		157,835	158,352
3. Loans and advances to customers				**90,885,567**			93,964
of which: secures with mortgages	0				0		
of which: municipal loans	30,649,595				27,848		
4. Bonds and other fixed-income securities							
a) Money market paper							
aa) Of public issuers		0				0	
of which: eligible as collateral with the Dt. Bundesbank					0		
ab) Of other issuers		242,247	242,247			82	
of which: eligible as collateral with the Dt. Bundesbank	0				0		
b) Bonds and debentures							
ba) Of public issuers		3,165,398				3,183	
of which: eligible as collateral with the Dt. Bundesbank	3,106,933				3,076		
bb) Of other issuers		17,477,572	20,642,970			17,650	
of which: eligible as collateral with the Dt. Bundesbank	16,739,550				16,998		
c) The group's own bond issuers			5,153,198	**26,038,415**		3,012	23,927
Par value	4,844,981				2,834		
5. Shares and other non-fixed income securities				**17,816,634**			12,338
6. Investments				**915,375**			1,277
of which: in banks	134,334				689		
of which: in financial services institutions	0				0		
7. Investments in associated enterprises				**591,961**			553
of which: in banks	591,961				553		
of which: in financial services institutions	0				0		
8. Shares in affiliated enterprises				**11,845**			12
of which: in banks		0				0	
of which: in financial services institutions	0				0		
9. Assets on a trust basis				**8,121,632**			8,344
of which: loans on a trust basis	8,047,051				8,259		
10. Compensation claims on public authorities including bonds from their conversation				**128,579**			193
11. Intangible assets				**9,009**			8
12. Tangible assets				**553,472**			588
13. Other assets				**133,627**			75
14. Prepaid expenses and deferred charges				**3,055,831**			4,115
15. Special loss account consisting of provisions under § 17 (4) of the D-Mark Balance Sheet Law				**27,019**			27
Total assets				313,893,981			303,799

Liabilities and Shareholders' Equity

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Funds borrowed from banks							
a) At call			106,519			1,023	
b) With agreed terms or periods of notice			27,362,671	**27,469,190**		33,800	34,823
2. Funds borrowed from customers							
a) Savings deposits			0			0	
b) Other funds							
ba) At call		140,583			545		
bb) With agreed terms or periods of notice		57,129,788	57,270,371	**57,270,371**	58,220	58,766	58,766
3. Securitised liabilities							
a) Bond issues			194,554,657			180,937	
b) Other securitised liabilities			0	**194,554,657**		0	180,937
4. Liabilities on a trust basis				**8,121,632**			8,344
of which: loans on a trust basis	8,047,051				8,259		
5. Other liabilities				**8,648,105**			3,595
6. Deferred income				**6,438,918**			6,806
7. Accrued estimated liabilities							
a) Accrued pension liabilities and similar obligations			553,731			527	
b) Accrued tax liabilities			10,674			19	
c) Others			385,275	**949,680**		668	1,214
8. Obligatory charges under the D-Mark Balance Sheet Law				**2,336**			40
9. Subordinated liabilities				**500,000**			0
10. Fund for general bank risks				**2,000,000**			1,630
11. Equity Capital							
a) Subscribed capital		3,750,000				3,750	
Outstanding contributions, not requested		(450,000)				(450)	
Paid-in subscribed capital			3,300,000				
of which: requested	0				0		
b) Capital reserves			1,603,764			1,604	
Allocation	0				0		
c) Reserve from the ERP Special Fund			606,501			559	
Contractual appropriation of interest	47,411				34		
d) Retained earnings							
da) Statutory reserve under § 10 (2) of the KfW Law		618,429				481	
db) Special reserve under § 10 (3) of the KfW Law		1,235,272				1,141	
dc) Special reserve under § 17 (4) of the D-Mark Balance Sheet Law		47,607				47	
dd) Other retained earnings		527,519	2,428,827	**7,939,092**		512	7,644
Total liabilities				**313,893,981**			**303,799**
1. Contingent Liabilities							
a) On bills discounted and charged		0				0	
b) On guarantees		51,026,066				34,423	
c) Liability under collateral for third party liabilities		0	51,026,066			0	34,423
2. Other Obligations							
a) Repurchase obligations on non-genuine repurchase transactions		0				0	
b) Placing and underwriting obligations		0				0	
c) Irrevocable loan commitments		37,421,266	37,421,266			33,943	33,943

Statement of Income of KfW Bankengruppe for the period from January 1 to December 31, 2003.

Expenses

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest expenses				10,312,224			11,031
2. Contractual appropriation of interest to the reserve from the ERP Special Fund				47,411			34
3. Commissions and similar charges payable				324,314			288
4. Net expenditure on financial transactions				–			11
5. General administrative expenses							
a) Expenditure on personnel							
aa) Salaries and wages		238,544				223	
ab) Social security contributions and expenditure on pensions and support		84,510	323,054			86	
of which: for pensions	44,722				52		
b) Other administrative expenses			185,733	508,787		169	478
6. Depreciation and value adjustments on intangible assets and fixed assets				67,134			42
7. Other operating expenses				71,644			10
8. Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses				651,897			1,120
of which: allocation to the fund for general bank risks	370,000				430		
9. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				334,758			1
10. Write-downs on the special loss account under § 17 (4) of the D-Mark Balance Sheet Law				217			6
11. Taxes on earnings and income				16,619			12
12. Net income for the year				247,400			264
Total expenses				12,582,405			13,297

Income

				2003			2002
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest income from							
a) Lending and money market transactions			10,984,406			11,714	
b) Fixed-income securities and debt register claims			758,151	**11,742,557**		862	12,576
2. Current income from							
a) Shares and other non-fixed income securities			53,849			16	
b) Investments			62,861			82	
c) Shares in affiliated enterprises			0			0	
d) Investments in associated enterprises			21,786	**138,496**		20	118
3. Commissions and similar service charges earned				**474,800**			452
4. Net earnings on financial transactions				**12,310**			–
5. Other operating income				**214,242**			151
Total income				**12,582,405**			**13,297**

Cash Flow Statement of KfW Bankengruppe as of December 2003.

EUR million

	Dec. 31, 2003	Dec. 31, 2002
Net income	**264**	**276**
Non-cash positions in net income and adjustments to reconcile net income to net cash provided by operating activities:		
– Write-downs, risks provisions, depreciation and adjustments on loans and advances, investments and fixed assets	1,054	1,140
– Change in accrued estimated liabilities	26	– 16
– Change in other non-cash positions	– 71	– 179
– Profit from the sale of investments and fixed assets	– 32	– 31
– Other adjustments (net)	4,053	3,499
Sub-total	**5,294**	**4,689**
Change in assets and liabilities from operating activities:		
– Loans and advances to banks	– 7,238	–12,946
– Loans and advances to customers	2,749	4,503
– Securities (not incl. investments)	– 8,966	939
– Funds borrowed from banks	– 7,356	–18,291
– Funds borrowed from customers	–1,493	3,441
– Bonds	13,617	16,359
– Other assets	– 19	0
– Other liabilities	– 201	– 60
– Interest received	11,743	12,667
– Interest paid	– 10,312	– 11,049
– Income tax paid	– 17	-12
Net cash provided by operating activities	**–2,199**	**240**
Proceeds from the sale of:		
– Investments	2,303	64
– Fixed assets	7	7
Payments for the acquisition of:		
– Investments	– 688	– 299
– Fixed assets	– 40	– 55
Changes from other investment activities	36	0
Net cash provided by investment activities	**1,618**	**– 283**
Proceeds from equity capital contributions	47	34
Changes from other financing activities	500	0
Net cash provided by financing activities	**547**	**34**
Cash and cash equivalents at the end of the previous period	**26**	**26**
Net cash from operating activities	–2,199	240
Net cash from investment activities	1,618	– 283
Net cash from financing activities	547	34
Effect of exchange rate changes and consolidation	34	8
Cash and cash equivalents at the end of the period	**27**	**26**

The cash flow statement of KfW Bankengruppe is drawn up in accordance with the recommendations of GAS 2–10. The total cash shown includes cash in hand and balances with central banks.

ANNEX AND GROUP ANNEX.

THE CONSOLIDATED ENTERPRISES AND THE PRINCIPLES OF CONSOLIDATION.

The consolidated financial statements include, besides KfW, KfW International Finance Inc., Delaware, USA, Finanzierungs- und Beratungsgesellschaft mbH, Berlin, DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, KfW Beteiligungsholding AG, as well as tbg Technologie-Beteiligungs-Gesellschaft mbH, Bonn und gbb-Beteiligungs AG, Berlin. Three other affiliated enterprises are not included in the consolidated financial statements, because their results are of only minor significance for the presentation of the assets, financial situation and earnings of the group.

The annual financial statements for the individual enterprises in the group were drawn up in accordance with the accounting and valuation methods applying to KfW. Loans and advances and liabilities, and income and expenditure between the consolidated enterprises were netted. The first consolidation was made by the book value method with the values stated on the group's balance sheet date.

The capital was consolidated on the basis of the values stated on the date the enterprises were first included in the group's accounts. The differences in the liabilities resulting from the capital consolidation total EUR 446 million and are included in the group's retained earnings.

The annual financial statements for KfW International Finance Inc. are drawn up in foreign currency and the amounts were converted at the official middle rate on December 31, 2003.

ACCOUNTING AND VALUATION METHODS.

The Financial Statements for 2002 for KfW and for the group have been drawn up in accordance with the requirements of the Commercial Code, the Ordinance Regarding the Accounting System for Banks (RechKredV) and the Law Concerning the Kreditanstalt für Wiederaufbau. The special provisions of the D-Mark Balance Sheet Law have also been observed. In the Financial Statements the reserves from the ERP Special Fund and the contractual allocation of interest earnings to these are now shown separately, as is the allocation to the Capital Reserves, which is shown as a memo item. Statements on individual items in the Balance Sheet, which may be made either in the Balance Sheet or an Annex, are given in the Annex.

With the entry into effect on August 22, 2003 of the Law on the Restructuring of Promotional Banks the merger of KfW and Deutsche Ausgleichsbank was completed with retroactive effect as per 1st January, 2003. The assets of Deutsche Ausgleichsbank were transferred to KfW by way of universal succession. On the balance sheet the asset transfer was made at book value. To establish comparable figures for the previous year in the present individual and consolidated financial statements we assumed the merger had already been carried out as per January 1, 2002. Adjustments made in the context of the harmonisation of the valuation and disclosure methods in 2003 were taken into account in the previous year's figures where this improved their comparability.

The cash in hand, loans and advances to banks and customers, investments, investments in associated enterprises and shares in affiliated enterprises and the other assets have been shown at cost, par or a lower value. Where loans or advances are shown at a higher than par value the difference has been included in the deferred income.

The securities in the liquid reserves (including securitised compensation claims on public authorities) are valued strictly at the lower of cost or market, where they are not covered by off-balance sheet business. Securities held as fixed assets are shown on a modified application of this principle. Securities assigned to an asset swap are shown as a single valuation. No allocations of securities to the trading stock have been made.

Fixed assets are shown at acquisition or production cost, reduced by straight line depreciation in accordance with the expected useful life of the items. Minor items were fully written off in the year of acquisition.

Liabilities are shown at repayment value; differences between agreed higher repayment amounts and disbursement amounts have been included in "Prepaid expenses and deferred charges".

Provisions for pensions and other obligations were valued in accordance with actuarial principles on the basis of "Richttafeln für die Pensionsversicherung" (Mortality and Disability Tables) of 1998 by Dr. Klaus Heubeck. For KfW the part-value method was used, with interest rates for accounting purposes of 3 % and 6 % respectively. The other provisions are shown at their expected recourse value.

Sufficient allowance has been made for risks, most of which are on loans as a result of the structure of KfW's business, through appropriate provisions and allocation to the fund for general bank risks in accordance with § 340 g of the Commercial Code. The allocations are shown in the item Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses. The possibility for netting in the Statement of Income in accordance with § 340 f (3) and § 340 c (2) of the Commercial Code has been utilized.

Loans and Advances to Banks
EUR million

	At call	Remaining term				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
Dec. 31, 2003 KfW	**161**	**15,810**	**10,441**	**40,418**	**95,954**	**2,535**	**165,319**
Dec. 31, 2003 Group	**171**	**15,849**	**10,481**	**40,629**	**95,892**	**2,556**	**165,578**
Dec. 31, 2002 KfW	*499*	*14,462*	*9,758*	*42,691*	*87,732*	*2,771*	*157,913*
Dec. 31, 2002 Group	*517*	*14,597*	*9,820*	*42,847*	*87,779*	*2,792*	*158,352*

		KfW	Group
of which to:			
affiliated enterprises		**178**	**0**
enterprises in which a participation is held	**4**	**53**	
without handling banks' liability		**4,091**	**4,091**
minor assets	**25**	**25**	

Loans and Advances to Customers
EUR million

	With no fixed term	Remaining term				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
Dec. 31, 2003 KfW	**0**	**3,295**	**6,406**	**30,447**	**49,089**	**1,608**	**90,845**
Dec. 31, 2003 Group	**0**	**3,364**	**6,505**	**30,559**	**48,842**	**1,616**	**90,886**
Dec. 31, 2002 KfW	*0*	*3,712*	*6,587*	*31,642*	*50,718*	*1,817*	*94,476*
Dec. 31, 2002 Group	*0*	*3,737*	*6,684*	*31,992*	*49,736*	*1,815*	*93,964*

		KfW	Group
of which to:			
affiliated enterprises		**767**	**33**
enterprises in which a participation is held	*7*	**110**	
minor assets	**1,152**	**1,180**	

BONDS AND OTHER FIXED-INCOME SECURITIES.

Amounts shown under "Bonds and other fixed-income securities" due in the year following balance sheet date:

Due the following year
EUR million

Balance sheet date	Dec. 31, 2003 KfW	Dec. 31, 2002 KfW	Dec. 31, 2003 Group	Dec. 31, 2002 Group
Money market paper, bonds	4,380	3,983	3,501	3,325
Par value	4,352	3,967	3,450	3,280
Own bond issues	357	754	121	305
Par value	353	738	121	298
Total	**4,737**	**4,737**	**3,622**	**3,630**
Par value	**4,705**	**4,705**	**3,571**	**3,579**

The item "Bonds and other fixed-income securities" includes loans and advances to:

EUR million

	KfW	Group
Affiliated enterprises	2,008	0
Enterprises in which a participation is held	0	12

The item "Bonds and other fixed-income securities" includes:

EUR million

	KfW	Group
Listed securities	23,561	23,566
Unlisted securities	2,156	2,156
Marketable securities	**25,717**	**25,722**

SECURITIES TRANSACTIONS UNDER REPURCHASE AGREEMENTS.

In sell & buy back transactions securities to the book value of EUR 777 million were repurchased.

FIXED ASSETS.

Fixed Assets as per December 31, 2003
EUR thousand

	Changes[1] 2003 (7)	Residual book value as per Dec. 31, 2003 (8)	Residual book value as per Dec. 31, 2002 (9)
Investments	14,227	29,061	14,834
Shares in affiliated enterprises	72,071	1,063,736	991,665
Securities treated as fixed assets	– 3,585,379	4,429,038	8,014,417
Sum	– 3,499,081	5,521,835	9,020,916

	Acquisition/ production costs[2] (1)	Inflows (2)	Outflows (3)	Transfers (4)	Allocations (5)	Write-downs/ Adjustments Total (6)	Write-downs/ Adjustments 2003 (7)	Residual book value as per Dec. 31, 2003 (8)	Residual book value as per Dec. 31, 2002 (9)
Intangible assets	28,820	8,532	785	5,825	0	33,908	12,971	8,484	7,740
Tangible assets[3]	646,969	30,456	7,531	– 5,825	0	148,909	30,375	515,160	526,804
Sum	675,789	38,988	8,316	0	0	182,817	43,346	523,644	534,544
Total								6,045,479	9,555,460

[1] Including price changes.
[2] The Relief Facility under §31 (6) of the EC Commercial Code has been utilized.
[3] Of which as per December 31, 2003: - total value of land and buildings used for the bank's activities EUR 490,136,000
- total value of office furniture and equipment EUR 25,024,000

Fixed Assets as per December 31, 2003 KfW Bankengruppe
EUR thousand

	Changes[1] 2003 (7)	Residual book value as per Dec. 31, 2003 (8)	Residual book value as per Dec. 31, 2002 (9)
Investments	– 322,343	1,507,336	1,829,679
Shares in affiliated enterprises	–59	11,845	11,904
Securities treated as fixed assets[2]	– 3,576,257	4,438,160	8,014,417
Sum	– 3,898,659	5,957,341	9,856,000

	Acquisition/ production costs[2] (1)	Inflows (2)	Outflows (3)	Transfers (4)	Allocations (5)	Write-downs/ Adjustments Total (6)	Write-downs/ Adjustments 2003 (7)	Residual book value as per Dec. 31, 2003 (8)	Residual book value as per Dec. 31, 2002 (9)
Intangible assets	31,932	8,661	785	5,825	0	36,624	13,515	9,009	8,448
Tangible assets[3]	723,573	31,004	7,903	– 5,825	0	187,377	53,619	553,472	588,295
Sum	755,505	39,665	8,688	0	0	224,001	67,134	562,481	596,743
Total								6,519,822	10,452,743

[1] Including price changes.
[2] The Relief Facility under § 31 (6) of the EC Commercial Code has been utilized.
[3] Of which as per December 31, 2003: - total value of land and buildings used for the bank's activities EUR 523,915,000
- total value of office furniture and equipment EUR 28,611,000

Bonds and other fixed-income securities, as well as shares and other non-fixed income securities, intended as a permanent part of operations and so usually held until maturity date, have been included with the securities treated as fixed assets. They are shown separately in the accounts and valued following the lower of cost or market principle (modified). The drop in securities treated as fixed assets is mainly due to the sale of securities (EUR 2.2 billion) and the regrouping of securities into the liquid assets (EUR 1.0 billion).

The book value of the marketable bonds not valued at the lower of cost or market and included in the item "Bonds and Other Fixed-rate Securities" is EUR 3,965 million.

The item “Shares and other non-fixed income securities” includes:

EUR million

	KfW	Group
Listed securities	14,118	14,127
Unlisted securities	3,690	3,690
Marketable securities	**17,808**	**17,817**

The book value of the marketable securities not valued at the lower of cost or market and included in the item “Shares and non-fixed income securities” is EUR 9 million.

Information on Equity Investments
EUR thousand and %

The enterprises numbered 1 to 6 are included in the consolidated financial statements as subsidiaries, and 7 is an associated enterprise.

Name and domicile of company	Share held in %	Equity Capital [1] EUR thousand	Net income for the year [1] EUR thousand
1. DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne	100.0	851,167	40,830
2. Finanzierungs- und Beratungsgesellschaft mbH (FuB), Berlin	100.0	6,397	5,848
3. KfW International Finance Inc., Delaware, USA	100.0	8 [2]	0 [2]
4. KfW Beteiligungsholding AG, Bonn	100.0	760,874	– 434,809
5. tbg Technologie-Beteiligungs-Gesellschaft mbh, Bonn	100.0	430,930	0
6. gbb Beteiligungs-Aktiengesellschaft, Berlin	100.0	11,400	0
7. IKB Deutsche Industriebank AG, Düsseldorf	37.8	1,785,982 [3]	85,839 [3]

[1] As per Dec. 31, 2003
[2] Converted at the rate on Dec. 31, 2003 (EUR 1 = USD 1.263).
[3] As per March 31, 2003

The full list of shareholdings in accordance with §§ 285, Para. 11 and 313, Para. 2 of the German Commercial Code is deposited with the district court in Frankfurt am Main.

The item "Investments" includes:

EUR thousand

	KfW	Group
Listed securities	0	653,823
Unlisted securities	12,784	12,784
Marketable securities	12,784	666,607

Assets on a trust basis
EUR million

	KfW		Group	
Loans and advances to banks				
a) At call	176		181	
b) Others	838	1,014	977	1,158
Loans and advances to customers		6,869		6,891
Investments		2		73
Total		7,885		8,122

OTHER ASSETS.

The item "Other Assets" consists mainly of pro rata interest on foreign exchange swaps to the amount of EUR 27 million and rights to recovery from the realisation of collateral in the amount of EUR 26 million.

PREPAID EXPENSES AND DEFERRED CHARGES.

The difference contained in the item "Prepaid Expenses and Deferred Charges" between the higher repayment amount and the lower issue amount of liabilities is EUR 481 million.

NOTES ON LIABILITIES.

Maturities Structure of Borrowed Funds
EUR million

	At call	Remaining term				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
Funds borowed from banks with agreed term or period of notice							
KfW	**141**	**2,718**	**2,251**	**10,720**	**8,317**	**3,176**	**27,323**
Group	**107**	**2,758**	**2,296**	**10,793**	**8,336**	**3,179**	**27,469**
as per Dec. 31, 2002 KfW	*1,071*	*3,116*	*4,545*	*11,299*	*11,255*	*3,316*	*34,602*
as per Dec. 31, 2002 Group	*1,023*	*3,116*	*4,584*	*11,485*	*11,295*	*3,320*	*34,823*
Funds borrowed from customers – Other borrowed funds with agreed term or period of notice							
KfW	**238**	**8,355**	**14,473**	**40,674**	**36,268**	**1,655**	**101,663**
Group	**141**	**3,191**	**4,888**	**18,216**	**29,926**	**908**	**57,270**
as per Dec. 31, 2002 KfW	*578*	*10,610*	*11,988*	*54,885*	*43,628*	*2,175*	*123,864*
as per Dec. 31, 2002 Group	*545*	*2,135*	*2,962*	*18,689*	*33,509*	*926*	*58,766*
KfW	379	11,073	16,724	51,394	44,585	4,831	128,987
Group	247	5,949	7,185	29,009	38,261	4,086	84,739
in %							
KfW	0	9	12	40	35	4	100
Group	0	7	9	34	45	5	100

Due the following year		
	KfW	Group
Securitised liabilities – bonds issued	20,469	35,253
as per December 31, 2002	*12,537*	*32,738*

Liabilities to Affiliated Enterprises and Enterprises in which KfW/KfW Bankengruppe holds a Participation
EUR million

	Securitised and non-securitised liabilities			
	To affiliated enterprises		To enterprises in which KfW/ KfW Bankengruppe holds a participation	
	KfW	Group	KfW	Group
Funds borrowd from banks	35	0	0	533
Funds borrowed from customers	44,495	0	0	3
Securitised liabiliites	0	0	0	0[1]
Total	**44,531**	**0**	**0**	**536**

[1] As far as can be ascertained.

Liabilities on a trust basis
EUR million

	KfW		Group	
Funds borrowed from banks				
a) At call	0		0	
b) With agreed term or period of notice	67	67	67	67
Funds borrowed from customers				
a) Savings deposits				
b) Other funds				
ba) At call	780		780	
bb) With agreed term or period of notice	7,038	7,818	7,275	8,055
Total		**7,885**		**8,122**

OTHER LIABILITIES.

The “Other Liabilities” are mainly the difference on the conversion of foreign currency positions secured with swaps to the amount of EUR 8.5 billion.

DEFERRED INCOME.

This item includes discounts on claims totalling EUR 1,409 million.

SUBORDINATED LIABILITIES.

In connection with the acquisition of shares of Deutsche Telekom AG and Deutsche Post AG for the further privatisation of these corporations the government granted KfW a subordinated loan of EUR 500 billion. The loan bears an agreed interest rate of 3.9475% and is due for repayment on November 11, 2008. KfW is not obligated to repay the subordinate loan ahead of schedule. In the event of liquidation or bankruptcy the claims on principal and interest arising from this obligation are subordinated to the claims of all of KfW's other creditors.

Interest expenses for the subordinate loan amounted to EUR 2.8 million. This interest accrued but not yet due is reported under Other liabilities.

EQUITY CAPITAL.

Group Equity Capital according to GAS No. 7
EUR million

	Dec. 31, 2002	Group's net income	Other changes	Dec. 31, 2003
KfW's subscribed capital	3,750.0	0.0	0.0	3,750.0
Outstanding contributions, not requested	–450.0	0.0	0.0	–450.0
Capital reserves	1,603.8	0.0	0.0	1,603.8
Reserve from the ERP Special Fund	559.1	0.0	47.4	606.5
Retained Group earnings				
a) Statutory reserve under § 10 (2) of the KfW Law	480.8	137.6	0.0	618.4
b) Special reserve under § 10 (3) of the KfW Law	1,141.1	94.2	0.0	1,235.3
c) Special reserve under § 17 (4) D-Mark Balance Sheet Law	47.6	0.0	0.0	47.6
d) Other retained earnings	511.9	15.6	0.0	527.5
Group equity capital	**7,644.3**	**247.4**	**47.4**	**7,939.1**

The group's net income for the year is EUR 247 million and an amount corresponding to KfW's net income for the year of EUR 232 million was allocated to the legal reserve (EUR 138 million) in accordance with § 10 (2) and to the special reserve (EUR 94 million) in accordance with § (3) of the KfW Law. The net income for the year of EUR 16 million achieved by the consolidated subsidiaries was allocated to the other retained earnings. KfW's equity capital is EUR 7,412 million. This sum includes the equity capital of DtA in the amount of EUR 1,153 million which was already taken into account in the previous year's figures and allocated to the capital reserves.

OTHER REQUIRED NOTES ON THE LIABILITIES.

CONTINGENT LIABILITIES.

The group's liabilities under guarantees total EUR 51,026 million. Of the total amount as per Dec. 31, 2003 EUR 46,521 million was credit default swaps, EUR 4,496 million was guarantees on loans (of which guarantees for aircraft finance totalled EUR 1,054 million, guarantees on special loans EUR 745 million and guarantees for housing construction of EUR 559 million), and EUR 9 million was letters of credit.

The new guarantees for third party risks given in 2003 amounted to EUR 22,022 million; they result mainly from the assumption of third party risks of credit default in connection with securitisation to a total of EUR 21,024 million. Altogether EUR 2,658 million was redeemed.

OTHER OBLIGATIONS.

The group's irrevocable loan commitments total EUR 37,421 million, of which EUR 8,002 million is export and project finance, EUR 20,453 million is investment finance, EUR 3,999 million is loans to promote the developing countries and EUR 4,999 million is guarantees.

NOTES ON THE STATEMENT OF INCOME.

SEGMENT REPORTING.

The segment reporting follows the internal management and contolling system for the business segments of KfW Bankengruppe.

The composition of our segments is shown in the following overview:

Segment Reporting

Investment finance Germany/Europe

- Equity Finance (incl. tbg – Technologie Beteiligungs GmbH)
- Enterprise Finance/Industrial Pollution Control Finance
- Education and Social Finance
- Infrastructure and Housing Finance
- Global Loans
- Asset Securitisation

Export- and Project Finance

- Promotion of German and European Exports
- Financing of direct and other Business Investment

Promotion of the Developing Countries

- Promotion of the developing and transition countries on behalf of the German Federal Government (budget funds) and with complementary market funds raised by KfW
- DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (promotion of the private-sector)

Advice/Services/Participations

- Holding arrangements for the Federal Government
- Shareholdings
- Securities investments
- Other services

A detailed description of the products and services offered by the individual business areas is contained in the statements presented under "KfW's Business Segments" of this annual report.

The operative business areas are measured on the basis of the net operating result. The individual positions are based on the following methods:

- Net interest income was itemised according to the principle of the market interest method. The position also includes internally calculated return on equity.
- The allocation of administrative expenses by cost centres to the individual segments is based on the results of activity-based costing.
- Risk provisions were charged to the individual segments on the basis of the risk costs calculated at the close of the transactions.
- The segment assets contain the total asset positions. The appropriation of equity[1] to the segments is effected on the basis of the corresponding risk position (pursuant to Principle I of the German Banking Act.

Contributions to operating income that accrue outside the segments are allocated to the central segment. The difference between the risk costs calculated for the operative business segments and the total provisions results in the central segment's balance of provisions for risks (which includes the increase of the open fund for general banking risks).

The transference/consolidation column contains all adjustment measures necessary for transferring the internal accounting parameters to the corresponding data of the financial reporting.

[1] Includes subscribed capital paid in, reserves and funds for general banking risks pursuant to § 340 g of the Commercial Code.

Segment Reporting by Business Segments
EUR million

Primary Segments	Investment finance Germany/ Europe	Export/ Project-Finance	Promotion of the Developing Countries	Advice/ Services/ Participations	Central Segment	Trans-ference/ Consoli-dation	KfW group
+ Interest received, net	330	422	140	97	466	114	**1,569**
+ Commissions received, net	71	77	99	26	0	–123	**150**
– Administrative expenses	265	89	153	66	0	3	**576**
+ Net result from financial transactions/other operating result	1	0	2	6	335	–189	**155**
– Risk provisions/ valuations, net	119	244	41	1	783	–201	**987**
= Income from current operations (income on normal business transactions)	**18**	**166**	**47**	**62**	**18**	**0**	**311**
Assets	173,826	49,733	21,784	61,605	6,946	0	**313,894**
Liabilities	169,423	46,652	20,897	58,598	6,811	1,574	**303,955**
Risk position (risk-weighted assets Principle I)	46,151	35,257	1,469	34,249	1,539	0	**118,665**
Equity Capital	4,403	3,081	887	3,007	135	–1,574	**9,939**
In %							
Return on average equity[1]	0.5	4.9	5.0	2.6			**3.2**
Cost-income ratio[2]	66.0	17.8	63.7	50.9			**30.9**

[1] Ratio of income from current operations to average equity.
[2] Ratio of administration expenses to net income (net interest received, net commissions received, other operating income).

SEGMENT REPORTING BY REGION.

As KfW Bankengruppe maintains no foreign branch offices the geographic segmentation of the loan volume is made on the basis of the customers' country of domicile. The remaining asset positions are appropriated to the domestic activities.

Segment Reporting by Regions
EUR million

Secondary Segments	Germany	Euroland (without Germany)	Other Europe	North America	Latin America inclusive Caribbean	Asia/ Australia	Africa	Trans-ference/ Consoli-dation	KfW group
+ Interest received, net	951	68	119	52	97	141	27	115	**1,569**
+ Commissions received, net	117	19	33	3	11	51	39	–123	**150**
– Administrative expenses	322	48	55	24	25	75	24	3	**576**
+ Net result from financial transactions/other operating result	342	0	1	0	0	0	1	–189	**155**
– Risk provisions/ valuations, net	928	34	69	26	68	50	13	–201	**987**
= Income from current operations (income on normal business transactions)	**160**	**5**	**29**	**5**	**15**	**67**	**30**	**0**	**311**
Assets	223,418	20,858	20,235	10,229	8,089	23,720	7,345	0	**313,894**
Liabilities	216,015	19,764	19,125	9,716	7,533	23,114	7,114	1,574	**303,955**
Risk position (risk-weighted assets Principle I)	80,011	12,521	10,681	5,869	4,310	4,289	984	0	118,665
Equity Capital	7,403	1,094	1,110	513	556	606	231	–1,574	**9,939**
In %									
Return on average equity[1]	2.4	0.5	2.9	0.9	2.6	10.4	14.0		**3.2**
Cost-income ratio[2]	22.8	55.3	36.0	43.2	23.0	39.1	35.6		**30.9**

[1] Ratio of income from current operations to average equity.
[2] Ratio of administration expenses to net income (net interest received, net commissions received, other operating income).

OTHER NOTES REQUIRED.

ASSETS AND DEBTS IN FOREIGN CURRENCIES.

The assets and debts in foreign currencies and the cash transactions not completed on the balance sheet date have been converted into euros at the official middle rates quoted on December 31, 2003.

Expenditure and earnings on currency conversion have been included under "Net earnings on financial transactions"; the imparity principle has been observed.

Revaluations of provisions for loan losses in foreign currencies necessitated by movements in exchange rates were included in the item "Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses".

Forward transactions were converted with due observance of the regulations on special cover or cover in the same currency. There were no effects from these on the Statement of Income.

As per December 31, 2003 total assets in foreign currencies were EUR 46.7 billion, converted in accordance with § 340 h (1) of the Commercial Code.

Total debts in foreign currencies were EUR 100.1 billion.

NOTES ON TRANSACTIONS BEARING A MARKET RISK.

KfW uses the following forward transactions/derivative products, mainly to hedge against risk of changes in interest rates and exchange rates, and other price and credit risks:

1. Interest-rate related forward transactions/derivative products
   - interest rate swaps
   - caps and floors
2. Currency-related forward transactions/derivative products
   - cross-currency swaps
   - FX swaps
   - forward exchange deals
3. Other forward transactions
   - share options under standstill agreements

DERIVATIVES BUSINESS.

KfW
EUR million

	Nominal values	Nominal values	Replacement costs[1]	Credit risk equivalents[1]
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2003
Volumes				
Contracts with interest rate risks				
Interest rate swaps	227,942	193,162	5,912	1,540
Standstill obligations on swap options	1,405	769	0	2
Spreadlocks	0	572	0	0
Caps and floors[2]	716	765	7	3
	230,063	195,268	5,919	1,545
Others	173	26	0	0
Total[3]	**230,236**	**195,294**	**5,919**	**1,545**
Contracts with currency risks				
Cross-currency swaps	68,131	56,921	1,266	999
FX swaps	8,287	13,554	49	26
Forward exchange deals	205	395	20	5
Spot exchange deals	0	18	0	0
Others	0	0	0	0
Total[3]	**76,623**	**70,888**	**1,335**	**1,030**
Contracts with other price risks				
Share options under standstill agreements	96	72	0	0
Total[3]	**96**	**72**	**0**	**0**

Nominal values	Interest rate risks		Currency risks		Other price risks	
EUR million	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Terms						
With remaining terms of						
up to 3 months	8,818	8,563	8,821	8,553	0	0
more than 3 months to 1 year	22,340	21,990	11,797	5,650	0	0
more than 1 year to 5 years	112,145	90,753	34,600	35,434	96	72
more than 5 years	86,933	73,988	21,405	21,251	0	0
Total[3]	**230,236**	**195,294**	**76,623**	**70,888**	**96**	**72**

[1] On December 31, 2003 KfW had deposited EUR 161.1 million as security for derivatives business.
All contracts are valued according to the mark-to-market method. K-III Swaps have been taken into account.
The replacement value given is without add-on.
[2] Without "embedded" caps and floors.
[3] OTC contracts.

EUR million

	Nominal values		Replacement costs[1]		Credit risk equivalents[1]	
			without netting	with netting	without netting	with netting
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2003
Counterparties						
OECD banks	237,048	195,819	5,128	76	1,893	367
Banks outside the OECD	0	0	0	0	0	0
Others	67,682	67,715	2,088	142	683	156
Public authorities	2,225	2,720	39	39	0	0
Total[2]	**306,955**	**266,254**	**7,255**	**257**	**2,576**	**523**

[1] On December 31, 2003 KfW had deposited EUR 161.1 million as security for derivatives business.
All contracts are valued according to the mark-to-market method. K-III Swaps have been taken into account.
The replacement value given is without add-on.
The credit risk equivalents according to Principle I KGW include add-ons.
[2] OTC contracts.

KfW group
EUR million

	Nominal values	Nominal values	Replacement costs[1]	Credit risk equivalents[1]
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2003
Volumes				
Contracts with interest rate risks				
Interest rate swaps	229,144	193,974	5,940	1,548
Standstill obligations on swap options	1,405	769	0	2
Spreadlocks	0	572	0	0
Caps and floors[2]	804	866	8	3
	231,353	196,181	5,948	1,553
Others	173	26	0	0
Total[3]	**231,526**	**196,207**	**5,948**	**1,553**
Contracts with currency risks				
Cross-currency swaps	68,589	57,339	1,321	1,014
FX swaps	8,287	13,554	49	26
Forward exchange deals	213	395	21	5
Spot exchange deals	0	18	0	0
Others	0	0	0	0
Total[3]	**77,089**	**71,306**	**1,391**	**1,045**
Contracts with other price risks				
Share options under standstill agreements	96	72	0	0
Total[3]	**96**	**72**	**0**	**0**

[1] On December 31, 2003 KfW had deposited EUR 161.1 million as security for derivatives business.
All contracts are valued according to the mark-to-market method. K-III Swaps have been taken into account.
The replacement value given is without add-on.
[2] Without "embedded" caps and floors.
[3] OTC contracts.

Nominal values	Interest rate risks		Currency risks		Other price risks	
EUR million	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
Terms						
With remaining terms of						
up to 3 months	8,818	8,563	8,840	8,553	0	0
more than 3 months to 1 year	22,432	22,089	11,957	5,688	0	0
more than 1 year to 5 years	113,019	91,340	34,785	35,763	96	72
more than 5 years	87,257	74,215	21,506	21,302	0	0
Total[3]	231,526	196,207	77,089	71,306	96	72

[1] On December 31, 2003 KfW had deposited EUR 161.1 million as security for derivatives business.
All contracts are valued according to the mark-to-market method. K-III Swaps have been taken into account.
The replacement value given is without add-on.
[2] Without "embedded" caps and floors.
[3] OTC contracts.

EUR million

	Nominal values		Replacement costs[1]		Credit risk equivalents[1]	
			without netting	with netting	without netting	with netting
	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2003	Dec. 31, 2003
Counterparties						
OECD banks	238,771	197,051	5,212	76	1,915	367
Banks outside the OECD	5	7	0	0	0	0
Others	67,711	67,807	2,088	142	683	156
Public authorities	2,225	2,720	39	39	0	0
Total[2]	308,712	267,585	7,339	257	2,598	523

[1] On December 31, 2003 KfW had deposited EUR 161.1 million as security for derivatives business.
All contracts are valued according to the mark-to-market method. K-III Swaps have been taken into account.
The replacement value given is without add-on.
The credit risk equivalents according to Principle I KGW include add-ons.
[2] OTC contracts.

In addition, KfW has taken on the risks of default on loans to small and medium-sized enterprises and for housing construction and transferred them to the capital market. The risks were assumed through credit derivatives, the total amount of which on December 31, 2003 was EUR 46.5 billion (EUR 27.5 billion in the previous year). The transfer of the full risk to the capital market was made through credit default swaps (EUR 42.0 billion) or credit linked notes (EUR 4.5 billion).

LOANS IN THE NAME OF THIRD PARTIES FOR THIRD PARTY ACCOUNT.

The loans in the name of third parties and for third party account totalled EUR 6,320 million as per December 31, 2003.

PERSONNEL.

The average number of staff, not including the Board of Managing Directors and trainees, but including temporary staff, is calculated from the figures at quarter endings during the year under review.

	2003 KfW	2002 KfW	2003 KfW group	2002 KfW group
Female empoyees	1,548	1,441	1,802	1,734
Male employees	1,657	1,579	1,868	1,840
Staff on performance-related agreements	1,867	1,721	2,135	2,035
Staff on collective wage agreements	1,338	1,299	1,535	1,539
Total	3,205	3,020	3,670	3,574

REMUNERATIONS, ADVANCES AND LOANS TO MEMBERS OF THE BOARD OF MANAGING DIRECTORS AND THE BOARD OF SUPERVISORY DIRECTORS.

The total remuneration paid to members of the Board of Managing Directors of KfW for 2003 was EUR 2,625,000. The remuneration paid to members of the Board of Supervisory Directors of KfW was EUR 173,000

A liability of EUR 31,024,000 had been accrued at Dec. 31, 2003 for obligations under pension arrangements for retired members of the Board of Managing Directors and their surviving dependants; current payments amounted to EUR 2,807,000.

Loans and advances to members of the Board of Managing Directors amounted to EUR 76,000 on Dec. 31, 2003.

RELATED PARTY DISCLOSURES (ACCORDING TO GAS 11).

Related parties or companies in the sense of GAS 11 are natural and legal persons and companies which may be influenced by the reporting company or which may influence the reporting company.

KfW is a public law institution owned 80% by the Federal Republic of Germany and 20% by the federal states. Pursuant to the KfW Law representatives of these legal persons are members of the Board of Supervisory Directors. The objective of the participation of the Federal Republic of Germany is to fulfil the promotional mission laid down in the KfW Law.

MANDATES HELD BY STATUTORY REPRESENTATIVES OR OTHER REPRESENTATIVES ON SUPERVISORY BOARDS OF MAJOR JOINT STOCK COMPANIES IN ACCORDANCE WITH §267 (3) COMMERCIAL CODE.

Hans W. Reich
Aareal Bank AG, Wiesbaden
ALSTOM GmbH, Frankfurt am Main
HUK-Coburg Haftpflicht-Unterstützungs-Kasse kraftfahrender Beamter Deutschlands a. G. in Coburg, Coburg
HUK-Coburg-Holding AG, Coburg
Deutsche Telekom AG, Bonn
IKB Deutsche Industriebank AG, Düsseldorf
RAG Aktiengesellschaft, Essen
ThyssenKrupp Steel AG, Duisburg

Dr. Peter Klaus
Allgemeine HypothekenBank Rheinboden AG, Frankfurt am Main
debis AirFinance B.V., Amsterdam
Deutsche VerkehrsBank AG, Frankfurt am Main
Georgsmarienhütte Holding GmbH, Georgsmarienhütte
STEAG AG, Essen
ThyssenKrupp Technologies AG, Essen

Ingrid Matthäus-Maier
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne
Deutsche BauBeCon AG, Hannover
European Investment Bank (EIB), Luxemburg
Salzgitter Handel GmbH, Düsseldorf

Detlef Leinberger
European Investment Fund, Luxemburg
Landwirtschaftliche Rentenbank, Frankfurt am Main

Wolfgang Kroh
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne

Gerhard Lewark, Dr. Volker Groß, Detlef Vogt
KfW International Finance Inc., Delaware, USA

Heinrich Heims
EKO Stahl GmbH, Eisenhüttenstadt
TelecomAsia Public Corp. Ltd., Bangkok, Thailand
Bangkok Inter Teletech Company Ltd., Bangkok, Thailand

Klaus Tüngeler, Claus Stadler, Andreas Klocke
TelecomAsia Public Corp. Ltd., Bangkok, Thailand

Doris Köhn
ProCredit Bank, Georgia, Tbilisi

Dr. Klaus Glaubitt
ProCredit Bank AD, Serbia, Belgrad
ProCredit Bank Kosovo, Prishtina

Hanns Martin Hagen
ProCredit Bank, (Bulgaria) AD, Sofia

Waltraud Wolff
Saarstahl AG, Völklingen

As per December 31, 2003

BOARD OF SUPERVISORY DIRECTORS.

Hans Eichel
Federal Minister of Finance
Chairman
(until December 31, 2003)
Deputy Chairman
(since January 1, 2004)

Wolfgang Clement
Federal Minister of Economics and Labour
Deputy Chairman
(until December 31, 2003)
Chairman
(since January 1, 2004)

Dietrich Austermann
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Dr. Günter Baumann
Member of the Board of DIHK Deutscher Industrie- und Handelskammertag
Representative of Industry
(since January 1, 2004)

Peter Benz
Lord Mayor of the City of Darmstadt
Representative of the Municipalities
(until December 31, 2003)

Anton F. Börner
President of the Bundesverband des Deutschen Groß- und Außenhandels e.V.
Representative of Trade

Klaus Brandner
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Dr. Rolf-E. Breuer
President of the Bundesverband deutscher Banken e.V.
Representative of the Commercial Banks

Dr. Ulrich Brixner
Chairman of the Board of Managing Directors of DZ BANK AG
Representative of the Cooperative Banks

Jochen Dieckmann
Minister of Finance of the State of North Rhine-Westphalia
Member appointed by the Bundesrat (Upper House)
(since February 14, 2003)

Joschka Fischer
Federal Minister of Foreign Affairs

Lutz Freitag
President of the GdW Bundesverband deutscher Wohnungsunternehmen e.V.
Representative of Housing

Dr. Rolf-Jürgen Freyberg
Spokesman of the Board of BGAG Beteiligungsgesellschaft der Gewerkschaften AG
Representative of the Trade Unions

Prof. Dr. Hans-Günter Henneke
Managing Director of the Deutscher Landkreistag
Representative of the Municipalities
(since January 1, 2004)

Dr. Dietrich H. Hoppenstedt
President of the Deutscher Sparkassen- und Giroverband e.V.
Representative of the Savings Banks

Bartholomäus Kalb
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Roland Koch
Minister President of the State of Hesse
Member appointed by the Bundesrat (Upper House)
(since November 17, 2003)

Dr. Karsten von Köller
Chairman of the Board of Managing Directors of EUROHYPO AG (ret.)
Representative of the Mortgage Banks
(until December 31, 2003)

Ursula Konitzer
Member of the Executive Board of ver.di (ret.)
Representative of the Trade Unions
(until December 31, 2003)

Renate Künast
Federal Minister of Consumer Protection, Food and Agriculture

Waltraud Lehn
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Friedrich Merz
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Prof. Dr. Wolfgang Methling
Minister for the Environment of the State of Mecklenburg-Vorpommern
Member appointed by the Bundesrat (Upper House)
(since January 1, 2004)

Dr. Horst Metz
Minister of Finance of the Free State of Saxony
Member appointed by the Bundesrat (Upper House)
(since January 1, 2004)

Hartmut Möllring
Minister of Finance of the State of Lower Saxony
Member appointed by the Bundesrat (Upper House)
(since November 17, 2003)

Margret Mönig-Raane
Deputy Chairman of ver.di e.V.
Representative of the Trade Unions
(since January 1, 2004)

Prof. Dr. Karl-Heinz Paqué
Minister of Finance of the State of Saxony-Anhalt
Member appointed by the Bundesrat (Upper House)
(until December 31, 2003)

Hartmut Perschau
Mayor of the Free Hanseatic City of Bremen
Member appointed by the Bundesrat (Upper House)
(until December 31, 2003)

Heinz Putzhammer
Member of the Executive Board of the Deutscher Gewerkschaftsbund
Representative of the Trade Unions

Dr. Michael Rogowski
President of the Bundesverband der Deutschen Industrie e.V.
Representative of Industry

Dr. Thilo Sarrazin
Senator for Finance of the State of Berlin
Member appointed by the Bundesrat (Upper House)
(until December 31, 2003)

Christine Scheel
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Hanns-Eberhard Schleyer
Secretary-General of the Zentralverband des Deutschen Handwerks
Representative of the Crafts

Dr. Franz Schoser
Managing Director of the Deutscher Industrie- und Handelskammertag (ret.)
Representative of Industry
(until December 31, 2003)

Michael Sommer
Chairman of the Deutscher Gewerkschaftsbund
Representative of the Trade Unions

Gerhard Sonnleitner
President of the Deutscher Bauernverband e.V.
Representative Agriculture

Dr. Ralf Stegner
Minister of Finance of the State of Schleswig-Holstein
Member appointed by the Bundesrat (Upper House)
(since January 1, 2004)

Ludwig Stiegler
Member of the German Bundestag (Federal Parliament)
Member appointed by the Bundestag
(since November 27, 2003)

Dr. Manfred Stolpe
Federal Minister of Transport, Building and Housing

Erwin Teufel
Minister President of the State of Baden-Württemberg
Member appointed by the Bundesrat (Upper House)

Dr. Alexander von Tippelskirch
Spokesman of the Board of Managing Directors of IKB Deutsche Industriebank Aktiengesellschaft
Representative of the Industrial Loan Banks

Jürgen Trittin
Federal Minister of the Environment, Nature Protection and Reactor Safety

Heidemarie Wieczorek-Zeul
Federal Minister of Economic Cooperation and Development

THE BOARD OF MANAGING DIRECTORS.

Dr. Peter Klaus Detlef Leinberger Hans W. Reich (Chairman)
Ingrid Matthäus-Maier Wolfgang Kroh Dr. Peter Fleischer

Dr. Peter Klaus	Detlef Leinberger	Hans W. Reich (Chairman)
Ingrid Matthäus-Maier	Wolfgang Kroh	Dr. Peter Fleischer

Frankfurt am Main, den 02.02.2004
KfW

AUDITOR'S REPORT REPRINT.

After concluding our audit we gave the following unqualified report:

AUDITOR'S REPORT.

We have audited the annual financial statements, together with the bookkeeping system, and the consolidated financial statements of KfW, Frankfurt am Main, with combined notes, as well as the combined management report of KfW and the group for the business year from January 1 to December 31, 2003. The bookkeeping system and the preparation of these documents in accordance with German commercial law and the regulations in the Law on the KfW and its By-Laws are the responsibility of the Board of Managing Directors of KfW. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, as well as on the consolidated financial statements and the combined management report of KfW and the group based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual und consolidated financial statements in accordance with German principles of proper accounting and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of KfW and the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes for the annual financial statements assessing the accounting principles used and for the consolidated financial statements assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used as well as for both statements the evaluation of significant estimates made by the Board of Managing Directors, and evaluating the overall presentation of the annual and consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements and the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of KfW and the group, respectively, in accordance with German principles of proper accounting. On the whole the combined management report provides a suitable understanding of KfW's and the group's position and suitably presents the risks of future development.

Frankfurt am Main, March 25, 2004
PwC Deutsche Revision, Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagener
Wirtschaftsprüfer

ppa. Dr. Ott
Wirtschaftsprüfer

KFW ORGANISATION CHART.

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