

Annual Report 2009



KONJUNKTUR
AUF TOUR



Key figures of KfW Bankengruppe

KfW Bankengruppe business activities	31 December 2009	31 December 2008
	EUR in billions	EUR in billions
Domestic promotion ¹⁾	50.9	45.4
International business ²⁾	13.4	22.4
KfW Mittelstandsbank ^{3), 4)}	23.8	17.0
KfW Privatkundenbank ³⁾	16.1	14.9
KfW Kommunalbank ³⁾	9.4	11.6
Advisory grants	0.1	0.0
Securitisations	1.5	1.9
Export and project finance (KfW IPEX-Bank)	8.9	17.6
<i>Promotional business</i>	4.3	5.0
<i>Market business</i>	4.6	12.6
Promotion for developing and transition countries	4.5	4.9
<i>KfW Entwicklungsbank</i>	3.5	3.6
<i>DEG</i>	1.0	1.2
Total volume KfW Group^{3), 5)}	63.9	67.8

Differences in the totals are due to rounding

¹⁾ KfW Mittelstandsbank, KfW Privatkundenbank, KfW Kommunalbank, Advisory grants and Securitisations business areas

²⁾ Export and project finance, Developing and transition countries business areas

³⁾ In 2009 a new calculation method was introduced. The figures for 2008 were therefore recalculated for the purpose of comparison. Global loans to commercial banks and global loans for general funding of the promotional institutions of the federal states are once again – as was the case up to and including 2007 – included in the contract volume. Moreover, for the first time grants provided under the programmes for the promotion of commercial vehicles and energy-efficient rehabilitation were reported on the basis of the grant volume instead of on the investment volume. The effects offset each other in 2009: whereas the change to contract volume gave rise to an increase of EUR 2.5 billion, reporting the grant volume led to a decrease of EUR 3.3 billion. As a result, overall the change of method led to a decline in the commitment volume of EUR 0.8 billion. If the old method from the year 2008 were applied, the total commitment volume of KfW would increase to EUR 64.7 billion.

⁴⁾ Including cancellations and waivers in the KfW Special Programme in the amount of EUR 577 million in 2009

⁵⁾ Adjustment of the Total volume KfW Group for Export and project finance commitments refinanced through KfW programme loans (2008: EUR 52 million, 2009: EUR 394 million)

Key income statement figures for the KfW Group	2009	2008 ¹⁾
	EUR in millions	EUR in millions
Net interest income	2,654	1,919
<i>Interest rate reductions</i>	-571	-606
Net commission income	286	218
Administrative expense	742	646
Operating result before valuation	2,198	1,492
Risk provisions for lending business	-972	-2,139
Net gains/losses from hedge accounting and other financial instruments at fair value through profit or loss	55	-1,747
Net gains/losses from securities and investments	-120	-1,974
Operating result after valuation	1,161	-4,368
Net other operating income	23	1,536
Profit/loss from operating activities	1,184	-2,832
Taxes on income	57	-89
Consolidated profit/loss	1,127	-2,743
Consolidated profit/loss before IRFS effects from hedging	1,432	-2,179
Change in revaluation reserves recognised directly in equity	261	-460
Cost/income ratio before interest rate reductions ²⁾	21.1 %	23.5 %

Key balance sheet figures for the KfW Group	2009	2008 ¹⁾
	EUR in billions	EUR in billions
Total assets	400	395
Volume of lending	384	365
Contingent liabilities	8	6
Irrevocable loan commitments	50	35
Assets held in trust	17	18
Volume of business	475	454
Equity	13	12
Equity ratio	3.3 %	3.0 %

Key regulatory figures for the KfW Group	2009	2008
	EUR in billions	EUR in billions
Risk position	129	140
Tier 1 capital	12	11
Total regulatory capital	15	14
Tier 1 ratio	9.4 %	7.8 %
Total capital ratio	11.7 %	10.1 %

Employees of KfW Bankengruppe	2009	2008
	4,265	4,228

¹⁾ Adjustment of previous year's figures due to change in accounting policies (see Note 2 of the Notes section)

²⁾ Administrative expense in relation to adjusted income. Adjusted income is calculated by adding net interest and commission income and interest rate reductions.

Mission Statement

We are one of the leading and most experienced promotional banks in the world. We use our knowledge and our energy to improve economic, social and ecological living conditions.

Strategic principles

Domestic promotion

We promote
Germany

KfW Privatkundenbank

- We finance investments in the future by citizens in Germany.

KfW Mittelstandsbank

- We finance SMEs to keep the German economy strong.

KfW Kommunalbank

- We finance municipal and social infrastructure, which advances structural change and the common good.

Export and project finance

We secure
internationalisation

- We finance German and European company projects so that they can compete on global markets.

Development finance

We promote
development

- We finance economic and social progress in developing and transition countries in order to improve people's quality of life.



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Dear Readers

2009 was the year of the worst financial and economic crisis since 1932. During this year KfW was particularly called upon to assist the Federal Government in the fight against the impacts of the crisis – and it has performed this task successfully.

KfW supported enterprises, municipalities and private households like never before, achieving the highest volume of domestic promotional business in its history. Investment promotion in Germany has more than doubled since the year 2000. At EUR 23.8 billion, the volume of promotional lending of the business area KfW Mittelstandsbank alone is now as high as the total domestic promotional business volume in the year 2000. The implementation of the “KfW Special Programme” under the Federal Government's economic stimulus programme posed a particular challenge for the bank.

Having felt the impacts of the disruptions of the financial markets like other banks in the past two years, and after sustaining substantial losses in the rescue of IKB, which had run into existential problems, KfW accomplished a fundamental turnaround in 2009. Not only did KfW succeed in maintaining its promotional business at the highest level, it was also able to generate a significant profit of EUR 1.1 billion, which will not only contribute to stabilising its risk-bearing

capacity but will also durably strengthen its promotional business.

In the course of the year the Managing Board of KfW was completed by the appointment of the new members Dr Axel Nawrath and Bernd Loewen. At the same time KfW effectively implemented its internal restructuring and concluded an intensive strategy process.

But 2009 was a historic year for other reasons as well. Twenty years earlier, the Wall that separated Germany fell. In the period that followed, KfW strongly committed itself to the modernisation of the eastern German economy, and today it draws a positive balance of its promotional activities: it provided EUR 161.5 billion through its promotional programmes for the development of small and medium-sized enterprises, improvement of the housing situation and modernisation of municipal infrastructure in eastern Germany. Today the eastern German states once again have attractive inner cities, a healthy small and medium-sized enterprise sector and modern infrastructure.

KfW started the year 2010 invigorated, and it will continue also in this year to intensively support the German economy in overcoming the impacts of the severe recession.

Development of KfW's financing activities

In 2009, **KfW Bankengruppe** financed investments and projects in Germany in an overall volume of EUR 50.9 billion. In the area of trade and industry alone KfW made EUR 23.8 billion available, and the greatest portion of this went to small and medium-

sized enterprises. The “KfW Special Programme”, which was launched at the beginning of 2009, made a major contribution to this volume, with altogether EUR 7.2 billion in loan commitments made by the end of the year.

"In the year of the worst financial and economic crisis since 1932, KfW was called into action in a special way. In this situation the "KfW Special Programme" was the main instrument with which we assisted the Federal Government in the fight to contain the impacts of the crisis. We are very proud that we were able to perform our mission as a promotional bank on such a high level, having provided the highest domestic financing volume ever".

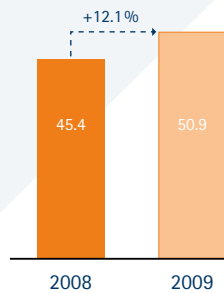
Besides supporting small and medium-sized enterprises and combating the consequences of the recession, climate and environmental protection were the main areas of promotion. KfW committed a total of EUR 19.8 billion for investments in this area. This was nearly one third of KfW Bankengruppe's overall promotional business volume. The share of funds provided for investments in Germany alone increased by 31% on the previous year to EUR 16.5 billion, contributing significantly to achieving the Federal Government's climate goals.

While domestic promotional business increased by 12.1% on the year 2008, the global financial and economic crisis has affected the results of the remaining business areas. The overall business volume of KfW Bankengruppe for the year 2009 was EUR 63.9 billion, a figure nonetheless within close range of the previous year's result.

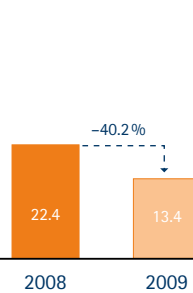
Business activities of KfW Bankengruppe

EUR in billions

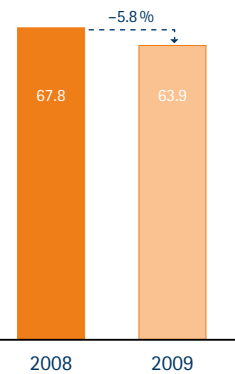
Domestic promotional business¹⁾



International business²⁾



Total business volume³⁾



¹⁾ KfW Mittelstandsbank, KfW Privatkundenbank, KfW Kommunalbank, Advisory grants, Securitisation business areas

²⁾ Export and project finance, Developing and transition countries business areas

³⁾ Adjusted for EUR 394 million in Export and project finance commitments refinanced through KfW programme loans

Results of the activities of the individual business areas

The business area **KfW Mittelstandsbank** made loan commitments in a volume of EUR 23.8 billion in 2009, a 40% increase over the previous year. This substantial growth was driven primarily by the strong increases in financings for start-ups and general capital expenditure, including the "KfW Special Programme". Financings of commercial investments in energy efficiency and environmental protection also increased substantially. With a commitment volume of EUR 7.2 billion in 2009 the "KfW Special Programme" made a fundamental contribution to securing financing for small and medium-sized enterprises. Some 94 % of all commitments went to SMEs. The main focus here was on working capital financings as liquidity support in the crisis.

In the business area **KfW Privatkundenbank**, the overall volume of financing increased by 8.1 % to EUR 16.1 billion. The programmes for energy-efficient construction and rehabilitation recorded a strong increase in demand. This led to a record commitment volume of EUR 8.9 billion, which exceeded the previous year's volume by 41.3%. In education finance the commitment volume increased as well. This was due to improved overall conditions in vocational education finance and to higher demand for individual educational finance schemes such as KfW Student Loans.

In the business area **KfW Kommunalbank**, the direct business of municipal financing nearly matched the previous year's level, not least as a result of the "Investment Offensive Infrastructure" (Economic Stimulus Package I). Following weaker demand during the first half of the year, business picked up again noticeably in the second half. In contrast, the volume of general funding of the promotional institutions of the

federal states decreased, leaving the overall volume of the business area at EUR 9.4 billion.

An area that continues to be in difficult shape is the **securitisation market**. Particularly because investors still lack confidence, but also owing to regulatory changes, the volume of commitments in asset securitisation transactions was EUR 1.5 billion.

In the year 2009 the business area **Promotion of developing and transition countries** committed financings totalling EUR 4.5 billion, slightly less than the volume of the previous year. KfW Entwicklungsbank made commitments in a volume of EUR 3.5 billion. Apart from the funds allocated from the federal budget, more than 50% of the funds for projects were raised by KfW itself, marking an important contribution to increasing the commitment volume recognised as Official Development Assistance (ODA).

After weaker results in the first half of the year caused by the financial and economic crisis, commitments by the KfW Bankengruppe subsidiary DEG increased significantly in the second half. Nonetheless, it closed the year with a commitment volume of EUR 1.0 billion, less than at year-end 2008. The volume of funds committed by DEG for investments in Africa was, at EUR 266 million, the highest in its history.

With EUR 8.9 billion in new loan commitments in the business area **Export and project finance**, KfW IPEX-Bank lived up to its reputation of being a reliable financing partner of both German and European industry in a very difficult market environment. As anticipated, the commitment volume in 2009 was much lower than in the exceptional year 2008.

The economic crisis caused enterprises in Germany and abroad to massively postpone investment plans, and demand for loans dropped sharply. In addition, KfW IPEX-Bank supported many enterprises in restructuring and deferring their repayments, thereby helping many enterprises to survive and saving numerous jobs.

In its **funding operations** KfW raised a total of EUR 74.7 billion in the international capital markets in 2009. In spite of the difficult environment, it achieved the issue volume which it had announced and passed the stress test "Funding in the Financial Market Crisis".

Operating result in the financial year 2009

KfW's earnings position is – in a difficult economic environment – marked by an outstanding operating result and positive effects from the securities portfolio on the result, but also by the high burdens resulting from risk provisions for lending business made in the course of the worsening economic and financial market crisis.

Despite the high interest rate reduction measures of EUR 0.6 billion granted in promotional lending business, the operating result before valuation was EUR 2.2 billion, a considerable increase of 47% on the previous year. Here the Group benefitted especially from the very favourable refinancing opportunities in the short-term segment following the monetary policy stabilisation measures adopted by the central banks.

Credit risks accelerated in the course of the year, reflecting the gradual spread of the financial market

crisis to the real economy. In continuation of the bank's conservative risk policy, risk provisions for lending business were increased by EUR 1.0 billion, particularly for operations in the business area of Export and project finance. On the other hand, as investor confidence and market liquidity returned, our securities portfolio yielded positive effects totalling EUR 0.6 billion, roughly half of which was recognised in the income statement.

In spite of purely IFRS-induced and economically not meaningful negative valuation effects totalling EUR 0.3 billion, KfW closed the financial year 2009 with a consolidated profit of EUR 1.1 billion. It has thus reversed two years of losses caused by the IKB rescue and is now clearly back to earning profits.

Outlook

The year 2010 will continue to be impacted by the financial and economic crisis. The economy is not yet out of the woods. There is, however, mounting danger of a widening gap between increasing demand for loans as the economic cycle recovers and the more restrictive lending policy of the banks. Enterprises will be negotiating with more risk-sensitive banks that are less capable of bearing risks. The consequence may be that higher demand for credit cannot be adequately met when economic growth picks up again. In this situation, given its role as a promotional bank KfW

will continue to be a highly sought-after partner in 2010. Until the economic and financial crisis is overcome, KfW will make its contribution to boost the economy through anticyclical measures and correspondingly high promotional lending volumes. The "KfW Special Programme" therefore will be given priority in 2010 as well in order to support the banking sector in supplying enterprises with credit. After all, viable and competitive enterprises are particularly important for the sustainable development of our economy and society.

"Precisely because the economy is recovering gradually, in 2010 many enterprises will likely face big challenges in accessing finance once again. This is why KfW will focus on strengthening small and medium-sized enterprises this year as well".

The crisis has driven home the recognition that the pursuit of short-term goals does not always lead to the desired success. Sustainable behaviour means much more than an investment strategy; it serves to preserve our economic and ecological bases. As a promotional bank, KfW is committed to the guiding idea of sustainability and therefore considers its main tasks – apart from securing the sustainability of enterprises in Germany – to be the development of solutions and suitable approaches for managing the megatrends of our times, namely climate change, the

growing scarcity of energy and natural resources, and demographic change.

The protection of the environment and the Earth's climate will therefore continue to be a major focus of all of KfW's national and international business activities. A quite welcome side-effect of our promotion of environmental protection measures is that German enterprises will be enabled to maintain and expand their market leadership in environmental technologies.

In order to address the problems of demographic change, KfW will continue to actively support education as well as the investments in housing and municipal infrastructure that are necessary to accommodate the specific requirements of an ageing society.

At the same time, however, we also want to continue improving ourselves. In 2009 KfW repositioned itself in the business areas directed at its key domestic customer groups. We want to improve even more in these areas and orientate our services more to the

needs of our customers in order to meet the demands that are placed on a modern promotional bank.

Last year KfW proved that it is indispensable as a modern promotional bank particularly in times of crisis. It helped to protect the economy from an even more serious decline by implementing appropriate financing measures. Economic policy will continue to face significant challenges in the future, too. We will continue to play our part to meet them.



Dr Ulrich Schröder
(Chairman)



Dr Günther Bräunig



Dr Norbert Kloppenburg



Bernd Loewen



Dr Axel Nawrath

Financial reporting

The complete consolidated financial statements including the group management report are contained in our Financial Report, which is available for download from our website. The annual financial statements and the management report of KfW are also available for download. The auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified auditor's report on both the consolidated and the individual financial statements as at 12 March 2010.

General economic environment

Global economic development in 2009 was characterised by the financial market crisis and its consequences for the real economy. On the heels of a considerable decline in global economic activity in the last quarter of 2008, growth experienced another strong setback in the first quarter of 2009. This was accompanied by sustained turbulence in the financial markets. However, in the course of 2009, the measures introduced by governments and central banks to combat the financial market crisis and the recession increasingly served their stabilising purpose. The situation on the financial markets eased considerably as a result of these moves, and the real economic indicators started to recover across the globe as well. However, growth from Q2 onwards was not sufficient to compensate for the dramatic slump seen at the beginning of the year. Global gross domestic product fell by a good 1% in price-adjusted terms.

The global recession also left a deep mark on Germany, an economy that is particularly susceptible to fluctuations in foreign demand. In the first quarter of 2009, aggregate output fell to the level seen at the end of 2005. Although aggregate output has since recovered somewhat, thanks, in particular, to the monetary and fiscal impetus provided, the growth achieved has been nowhere near sufficient to make up for the historic slump. Real GDP contracted by 5% in 2009 as a whole. The surprisingly stable development on the labour market, where the unemployment rate climbed only moderately to 8.2%, was not least due to the broader opportunities of state-supported shorter working hours. The federal deficit rose considerably as a result of the record recession, economic stimulus measures, and rescue packages for the financial sector, to 3.3% of GDP.

Major KfW Group developments

Despite the difficult macroeconomic conditions, the KfW Group returned to solid profitability with a

consolidated profit of EUR 1.1 billion following two years of losses due to the IKB rescue.

High volumes in promotional business

The Group expanded domestic promotion for the economy, the environment, housing and education by EUR 5.5 billion in 2009 to a record volume of EUR 50.9 billion, thus making an important contribution to battling the economic crisis in Germany. At EUR 63.9 billion, the total financing volume still reached a high level, but declined due to significantly less demand for loans in the export and project finance business – which was to be expected. KfW's interest rate reductions remained high at EUR 571 million.

The consolidated total assets of the KfW Group rose by EUR 5.3 billion to EUR 400.1 billion. The volume

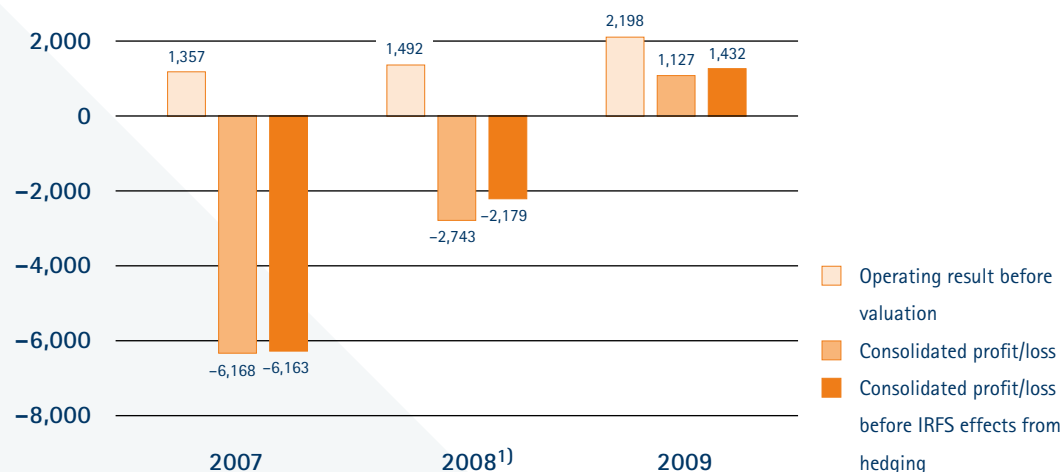
of lending showed particularly positive development: in addition to loans and advances that were up by EUR 4.0 billion (EUR 317.7 billion), irrevocable loan commitments, in particular, rose to EUR 50.4 billion due to a high level of new commitments in domestic promotional business. The securities portfolio was reduced in the course of the year as part of the strategic realignment, the focus being on maintaining liquidity. The growth was funded mainly by increased issuing activity; the volume of certificated liabilities totals EUR 321.4 billion.

In 2009 the earnings position was characterised by

- an excellent operating result
- a considerable increase in risk provisions for lending business
- the recovery of the securities portfolio

Operating result before valuation, consolidated profit/loss, consolidated profit/loss before IRFS effects from hedging

EUR in millions



¹⁾ Adjustment of the previous year's figures due to change in accounting policies is presented in the consolidated financial statements.

Excellent operating result

The operating result before valuation showed extremely encouraging development with growth of 47 % to total EUR 2,198 million, due particularly to the high increase in net interest income. In this respect, the Group benefitted in particular from the very favourable refinancing conditions in the short-term segment that resulted from the monetary policy stabilisation measures taken by the central banks in conjunction with KfW's top-notch credit rating.

Considerable increase in risk provisions for lending business

Group credit risks accelerated during the course of the year, thus reflecting the gradual spread of the financial market crisis to the real economy. In view of this, risk provisions for lending business were markedly increased by EUR 972 million and were thus maintained at a level in line with KfW's conservative risk policy.

In particular, individual impairments were recognised to account for immediate lending risks that mainly affect the Export and project finance business area.

However, support for domestic SMEs and promotion for developing and transition countries also generated significant expenses for risk provisions. Collective impairments for latent risks in the loan portfolio were substantially increased once again in view of the current economic situation and take into account those sectors and countries that were particularly hard-hit by the recession.

Stabilisation of the financial markets situation

Conditions in the financial markets eased considerably over the course of 2009 as a result of the stabilisation measures taken by governments and central banks. Whereas markets for nearly all asset classes had largely dried up and high risk and liquidity premiums, even for good counterparties, were the norm in 2008, prices gradually recovered as investor confidence returned. Overall, the Group's securities portfolio yielded positive effects totalling EUR 296 million on the income statement; moreover, reversals of impairment losses totalling EUR 285 million were directly recognised in equity.

Clear return to profitability

Despite high risk provisions for lending business in its core business, the KfW Group recorded a consolidated profit of EUR 1,127 million following two years in which – triggered by the financial burdens associated with the IKB rescue – it posted high consolidated losses. The consolidated profit was retained, thus improving the KfW Group's risk-bearing capacity as well as its future funding opportunities.

Development of the risk situation

The impact that the financial crisis has had on the real economy is evident in particular from the crisis that has hit the merchant shipping and automotive sectors, as well as from the substantial increase in risks witnessed in other cyclical sectors, and certain countries and regions, too. By contrast, compared with 2008, broad sections of the financial sector stabilised in 2009, not least thanks to substantial government support. Nonetheless, considerably higher risks are still observable in some regions.

The KfW Group has also been affected by these developments, due to the international aspect of its promotional mandate, and is continuing to monitor and manage its risks intensively. All recognisable risks are measured using conservative standards. The regular calculations of risk-bearing capacity show that the KfW Group can bear the risks taken in the context of its mandate.

KfW is systematically further developing its risk management and control processes, focusing on group-wide control processes (e.g. for securities, in limit management and for operational risks), expanding and further integrating stress and other scenario calculations in risk management, and expanding the real-time decision-oriented reporting system. Early risk detection in controlling equity investments as well as sector monitoring are also to be further developed based on stable and efficient processes and instruments. Focal points in 2010 will therefore be reducing complexity and increasing the stability of the instruments, as well as standardising processes for validation and

further development. In addition, the valuation methods used for corporate and bank ratings and for collateral acceptance in the on-lending business are being reviewed and enhanced.

Risk management within the KfW Group chiefly serves to ensure the Group's risk-bearing capacity. To assess the risk-bearing capacity, risks must be measured and compared to risk-covering potential (available financial resources) by means of a capital requirement calculation. Risk management was improved during the reporting year by creating stronger links between regulatory and economic risk-bearing capacity.

As at 31 December 2009, KfW's economic risk-bearing capacity stood at a solvency level of 99.96%. Any additional capital requirements for stress scenarios are covered by the unrestricted portion of available financial resources and through further equity components and subordinated liabilities. Considering these funds, risk-bearing capacity at a solvency level of 99.99% is attained even under unfavourable macroeconomic conditions.

The regulatory capital ratios are up in a year-on-year comparison. The tier 1 ratio improved in the course of the year to 9.4% (2008: 7.8%), while the total capital ratio rose to 11.7% (2008: 10.1%).

Despite the difficult market environment, KfW's funding situation was not negatively affected at any time.

Outlook

The fiscal policy stimulus packages and the expansive monetary policy will bolster global economic recovery well into 2010. Dynamic growth is expected in Asian emerging markets, in particular. Growth rates in industrialised countries are also expected to continue to rise but not return to their pre-crisis level, for the time being. Germany's economic development is also likely to be on the upswing in 2010 and 2011; however, real GDP will not yet return to its pre-crisis level of 2008 within this period.

The Group will continue to pursue its business activities at a high level, with particular emphasis being placed on domestic promotional programmes – including the special economic stimulus programmes – with a planned promotional business volume of EUR 50 billion in order to provide the growth stimulus that is still required to ensure economic recovery. The Group plans to forge ahead with its export and project finance

activities, and aims to achieve a new business volume on a par with 2009 at EUR 8 billion. It also plans to step up the support that it provides to developing countries and emerging markets, which have also been hit hard by the financial and economic crisis, by lifting its promotional business volume to EUR 5 billion. KfW expects to see a high refinancing volume of between EUR 70 billion and EUR 75 billion in financial year 2010.

In its current results projections for the Group, KfW expects to achieve an overall result of approximately EUR 1 billion in 2010. All in all, KfW anticipates conditions that will lead to a decline in net interest income, but also predicts that this will be offset by a slight decline in risk provisions for lending business and improvements in the valuation result. Given that the financial market and economic crisis still persists, however, the forecast remains subject to a large degree of uncertainty.

Rainer Brüderle
Federal Minister of Economics and Technology



Report of the Board of Supervisory Directors

Meetings of the Board of Supervisory Directors

The Board of Supervisory Directors with its committees has continually supervised the conduct of KfW's business and the administration of its assets, and it has taken the necessary decisions on the provision of financing and the conduct of other business in accordance with the conditions set forth in the Law concerning KfW and the By-Laws. For this purpose the Board of Supervisory Directors and the Executive Committee each held four meetings, the Loan Approval Committee three meetings and the Audit Committee two meetings in 2009.

At these meetings the Managing Board informed the Board of Supervisory Directors of:

- the business activities and current developments in KfW's individual fields of activity,
- the Group's net assets, earnings position and risk situation,
- the development of the remaining risk positions from the risk protection afforded to, and the sale of, the equity interest in IKB,
- the securities management within the Group and
- KfW's strategic reorientation.

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

- In regard to the domestic promotion activities, the Managing Board reported on their organisational restructuring into KfW Mittelstandsbank,

KfW Privatkundenbank and KfW Kommunalbank, as well as on the pooling of the sales function into a separate department. The Managing Board also informed the Board of Supervisory Directors about the state of implementation and the impacts of the "KfW Special Programme" and the other measures with which KfW has been supporting the Federal Government in the implementation of the agreed economic stimulus measures.

- With a view to KfW Entwicklungsbank, the Managing Board reported on the contribution which KfW funds have made to achieving the ODA targets set by the Federal Government, as well as on international climate financing as a central sustainability issue.
- In relation to KfW IPEX-Bank GmbH and the business area of Export and project finance, the reporting was primarily centred on the financing operations performed in the interest of the German and European economy against the backdrop of the continuing financial and economic crisis. The Managing Board emphasised that in the future, the export finance offers will be aligned more closely with the needs of small and medium-sized enterprises.
- The Sustainability Report of KfW Bankengruppe was also presented.

The Board of Supervisory Directors was informed quarterly about the Group's net assets, earnings position and risk situation, and the development of its promotional business. In this connection, the Board of Supervisory Directors and the Audit Committee discussed especially the financial burdens from the financial

market crisis. For this purpose the Board of Supervisory Directors and the Audit Committee were also informed of the development of KfW's securities portfolio against the background of the financial market crisis.

In addition, the Managing Board informed the Board of Supervisory Directors in detail of the current state of the organisational restructuring of KfW under the project "Perspective", which was completed in mid-2009. The reorganisation of the Risk Management Department was also presented.

The Managing Board also discussed KfW's strategic orientation with the Board of Supervisory Directors. The positive development of the Group's profitability and the associated improvement of its risk-bearing capacity, which enable KfW to strengthen its promotional capabilities and equity base, were highlighted as fundamental advances. The business strategy and related planning for the year 2010 were approved by the Board of Supervisory Directors.

The Managing Board also informed the Board of Supervisory Directors of the guidelines newly established by KfW Bankengruppe at the behest of the Chairman of the Board of Supervisory Directors for the handling of financial transactions in non-transparent countries and territories (so-called "tax havens").

Legal disputes

The Board of Supervisory Directors was informed of the current state of the lawsuits filed by the Managing Board members removed and dismissed in the previous year as a consequence of the Lehman incident.

Corporate governance

The Board of Supervisory Directors and the Managing Board of KfW have issued a declaration of intent regarding the Federal Public Corporate Governance Code (*Public Corporate Governance Kodex – PCGK*) in which they recognise the principles of the code and seek to implement them at KfW as soon as possible.

For the financial year 2010 the Managing Board and the Board of Supervisory Directors will for the first time issue a declaration of compliance with the recommendations to be renewed annually, and disclose and detail any deviations from the code principles in a corporate governance report.

The Board of Supervisory Directors also decided after completion of a Europe-wide tender procedure in May 2009 to recommend to the supervisory authority that KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) be appointed as the new auditor for KfW. The Federal Ministry of Finance as the supervisory authority followed this recommendation and appointed KPMG as the new auditor in agreement with the Federal Audit Office.

Committees of the Board of Supervisory Directors

In addition to the affairs of the Managing Board, the Executive Committee concerned itself especially with the real estate matters of KfW. The Loan Approval Committee reviewed the commitments that have to be presented to it under the Law concerning KfW (KfW Law) and the By-Laws and was informed of the credit risks. The Audit Committee concerned itself with the quarterly and risk reports as well as the annual statements of KfW Bankengruppe. It made corresponding recommendations to the Board of Supervisory Directors for the preparation of the annual financial statements and the appointment of the auditor.

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

Changes on the boards

At the proposal of the Executive Committee, the Board of Supervisory Directors appointed the following Managing Board members in the reporting period: Dr Axel Nawrath on 22 January 2009, effective as at 1 April 2009, and Mr Bernd Loewen on 26 March 2009, effective as at 1 July 2009. Mr Wolfgang Kroh retired from KfW on 30 September 2009 and hence

also left the Managing Board. The Board of Supervisory Directors wishes to thank Mr Kroh for his 38 years of dedicated service to KfW.

As was agreed, in my capacity as Federal Minister of Economics and Technology I assumed the position of Chairman of the Board of Supervisory Directors for 2010 from my colleague Dr Wolfgang Schäuble, Federal Minister of Finance.

During the reporting period, Dr Günter Baumann, Dr Uwe Brandl, Prof. Dr Ingolf Deubel, Sigmar Gabriel, Michael Glos, Dr Karl-Theodor Freiherr zu Guttenberg, Peter Jacoby, Dr Siegfried Jaschinski, Prof. Dr-Ing. Hans-Peter Keitel, Waltraud Lehn, Klaus-Peter Müller, Matthias Platzeck, Peer Steinbrück, Dr Frank-Walter Steinmeier, Ludwig Stiegler, Wolfgang Tiefensee and Heidemarie Wieczorek-Zeul resigned from the Board of Supervisory Directors. The Board of Supervisory Directors would like to thank these former members for their work on the board. In addition to myself, Christian Brand, Prof. Dr Hans Heinrich Driftmann, Axel Gedaschko, Hubertus Heil, Monika Kuban, Karoline Linnert, Dirk Niebel, Dr Peter Ramsauer, Dr Norbert Röttgen, Dr Wolfgang Schäuble, Andreas Schmitz, Dr Werner Schnappauf, Carsten Schneider, Marion Walsmann and Dr Guido Westerwelle joined the Board of Supervisory Directors.

Annual financial statements

KPMG, who were appointed auditors for the 2009 financial year, audited the annual financial statements and the management report of KfW as well as

the consolidated financial statements and the group management report of KfW Bankengruppe, all of which were prepared as at 31 December 2009 by the Managing Board, and issued an unqualified auditor's report thereon. The financial statements and the management report were prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch – HGB*) and the consolidated financial statements and the group management report were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the European Union.

At its meeting on 25 March 2010 the Board of Supervisory Directors approved the financial statements and the consolidated financial statements, both of which were prepared by the Managing Board, as stipulated in Article 9 (2) of the Law concerning KfW following a recommendation by the Audit Committee.

Frankfurt am Main, 25 March 2010

THE BOARD OF SUPERVISORY DIRECTORS



Chairman

Members and tasks of the Board of Supervisory Directors

The Board of Supervisory Directors supervises the conduct of KfW's business activities and the management of its assets. It approves the larger loans and the annual financial statements. 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.

Rainer Brüderle

Federal Minister of Economics and Technology
(from 28 October 2009)
Deputy Chairman
(from 28 October 2009 until 31 December 2009)
Chairman
(from 1 January 2010)

Dr Wolfgang Schäuble

Federal Minister of Finance
(from 28 October 2009)
Chairman
(from 28 October 2009 until 31 December 2009)
Deputy Chairman
(from 1 January 2010)

Peer Steinbrück

Former Federal Minister of Finance
Chairman
(until 27 October 2009)

Dr Karl-Theodor Freiherr zu Guttenberg

Former Federal Minister of Economics and Technology
(from 12 February 2009)
Deputy Chairman
(from 12 February 2009 until 27 October 2009)

Michael Glos

Former Federal Minister of Economics and Technology
(until 10 February 2009)
Deputy Chairman
(from 1 January 2009 until 10 February 2009)

Ilse Aigner

Federal Minister of Food, Agriculture and Consumer Protection

Dr Günter Baumann

Member of the Board of Managing Directors of the Association of German Chambers of Industry and Commerce (DIHK)
Representative of industry
(until 1 April 2009)

Anton F. Börner

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

Christian Brand

Chairman of the Board of Managing Directors of L-Bank, Landeskreditbank Baden-Württemberg
Representative of the mortgage banks
(from 5 August 2009)

Dr Uwe Brandl

President of the Bayerischer Gemeindefrat
Representative of the municipalities
(until 31 December 2009)

Frank Bsirske

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

Prof. Dr Ingolf Deubel

Former Minister of Finance of the State of Rhineland-Palatinate
Member appointed by the German Bundesrat
(until 31 December 2009)

Prof. Dr Hans Heinrich Driftmann

President of the Association of German Chambers of Industry and Commerce (DIHK)
Representative of industry
(from 27 May 2009)

Prof. Dr Kurt Faltlhauser

Former Minister of Finance of the Free State of Bavaria
Member appointed by the German Bundesrat

Axel Gedaschko

Senator
Office of Economic Affairs and Employment
Member appointed by the German Bundesrat
(from 1 January 2010)

Sigmar Gabriel

Former Federal Minister of the Environment, Nature Conservation and Nuclear Safety
(until 27 October 2009)

Heinrich Haasis

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

Hubertus Heil

Member of the German Bundestag
Member appointed by the German Bundestag
(from 1 January 2010)

Gerhard P. Hofmann

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

Peter Jacoby

Minister of Finance of the State of Saarland
Member appointed by the German Bundesrat
(until 31 December 2009)

Dr Siegfried Jaschinski

Former Chairman of the Board of Managing Directors of Landesbank Baden-Württemberg
Representative of the mortgage banks
(until 19 May 2009)

Bartholomäus Kalb

Member of the German Bundestag
Member appointed by the German Bundestag

Prof. Dr-Ing. Hans-Peter Keitel

President of the Bundesverband der Deutschen Industrie e.V.
Representative of industry
(until 22 May 2009)

Roland Koch

Minister President of the State of Hesse
Member appointed by the German Bundesrat

Dr h.c. Jürgen Koppelin

Member of the German Bundestag
Member appointed by the German Bundestag

Monika Kuban

Deputy Managing Director of the Deutscher Städtetag
Representative of the municipalities
(from 1 January 2010)

Waltraud Lehn

Former member of the German Bundestag
Member appointed by the German Bundestag
(until 31 December 2009)

Members of the Board of Supervisory Directors (cont.)

Karoline Linnert

Mayor
Senator for Finance
of the Free Hanseatic City of Bremen
Member appointed by the German
Bundesrat
(from 1 January 2010)

Dr Helmut Linsen

Minister of Finance
of the State of North Rhine-West-
phalia
Member appointed by the German
Bundesrat

Dr Gesine Lötzs

Member of the German Bundestag
Member appointed by the German
Bundestag

Claus Matecki

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

Dr Michael Meister

Member of the
German Bundestag
Member appointed by the German
Bundestag

Franz-Josef Möllenberg

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

Hartmut Möllring

Minister of Finance
of the State of Lower Saxony
Member appointed by the German
Bundesrat

Klaus-Peter Müller

President of the Association
of German Banks
Representative of the
commercial banks
(until 23 March 2009)

Dirk Niebel

Federal Minister for Economic
Cooperation and Development
(from 28 October 2009)

Matthias Platzeck

Minister President
of the State of Brandenburg
Member appointed
by the German Bundesrat
(until 31 December 2009)

Dr Peter Ramsauer

Federal Minister for Transport,
Building and Urban Affairs
(from 28 October 2009)

Dr Norbert Röttgen

Federal Minister
of the Environment, Nature
Conservation and Nuclear Safety
(from 28 October 2009)

Alexander Rychter

Speaker of the Board
of Managing Directors
of the Verband der
Wohnungswirtschaft
Rheinland-Westfalen e.V.
Representative of the
housing industry

Christine Scheel

Member of the
German Bundestag
Member appointed
by the German Bundestag

Hanns-Eberhard Schleyer

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

Andreas Schmitz

President of the Association
of German Banks
Representative of the commercial
banks
(from 25 March 2009)

Dr Werner Schnappauf

Director General of the Executive
Board of the
Bundesverband der Deutschen
Industrie e.V.
Representative of industry
(from 5 August 2009)

Carsten Schneider

Member of the German Bundestag
Member appointed by the German
Bundestag
(from 1 January 2010)

Michael Sommer

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

Gerd Sonnleitner

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

Dr Frank-Walter Steinmeier

Former Federal Minister
for Foreign Affairs
(until 27 October 2009)

Ludwig Stiegler

Former member of the
German Bundestag
Member appointed by the
German Bundestag
(until 31 December 2009)

Wolfgang Tiefensee

Former Federal Minister for Transport,
Building and Urban Affairs
(until 27 October 2009)

Marion Walsmann

Minister of Finance
of the Free State of Thuringia
Member appointed by the German
Bundesrat
(from 1 January 2010)

Dr Guido Westerwelle

Federal Minister for Foreign Affairs
(from 28 October 2009)

Heidmarie Wieczorek-Zeul

Former Federal Minister for Economic
Cooperation and Development
(until 27 October 2009)

Managing Board

Dr Ulrich Schröder (Chairman of the Managing Board) | Dr Günther Bräunig | Dr Norbert Kloppenburg | Wolfgang Kroh (until 30 September 2009) | Bernd Loewen (from 1 July 2009) | Dr Axel Nawrath (from 1 April 2009)

Directors

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

Managing Directors of KfW IPEX-Bank GmbH

Michael Ebert | Heinrich Heims (Speaker) | Christiane Laibach | Christian Murach | Markus Scheer

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

Board of Management of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

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

DEG was founded in 1962 and has been a wholly-owned subsidiary of KfW Bankengruppe since 2001. DEG is one of the largest European development finance institutions for long-term project and corporate financing. It has been financing and structuring investments by private companies in developing and transition countries for more than 40 years.

Compensation and loans to members of the Managing Board and Board of Supervisory Directors of KfW

Compensation to members of the Managing Board and Board of Supervisory Directors

	2009	2008	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Managing Board	2,658	2,653	6
Members of the Board of Supervisory Directors	160	218	-58
Former members of the Managing Board and their surviving dependents	3,619	3,617	2
Total	6,437	6,487	-50

Differences in the totals are due to rounding.

The following table provides details on the compensation paid to the Managing Board in financial year 2009:

Annual compensation 2009

	Monetary compensation	Other compensation ¹⁾	Total
	EUR in thousands	EUR in thousands	EUR in thousands
Dr Ulrich Schröder (Chairman)	660.0	110.3	770.3
Dr Günther Bräunig	349.2	41.6	390.8
Dr Norbert Kloppenburg	466.6	60.2	526.8
Wolfgang Kroh (until 30 Sept. 2009)	385.2	34.0	419.2
Bernd Loewen (since 1 July 2009)	240.0	15.4	255.4
Dr Axel Nawrath (since 1 April 2009)	243.8	51.7	295.5
Total	2,344.8	313.2	2,658.0

¹⁾ Other compensation mostly comprises the use of company cars and insurance premiums and the taxes and social security payments on these amounts. It also comprises compensation for serving on the Boards of Supervisory Directors of subsidiaries.

The compensation to the members of the Board of Supervisory Directors is determined by the Supervisory Authority in accordance with Section 4 (5) of the KfW By-Laws and is composed as follows:

- Compensation for the Chairman of the Board of Supervisory Directors: EUR 13 thousand p.a. (previous year: EUR 13 thousand)
- Compensation for the Deputy Chairman: EUR 10 thousand p.a. (previous year: EUR 10 thousand)
- Compensation for the members of the Board of Supervisory Directors: EUR 5 thousand p.a. (previous year: EUR 5 thousand)
- Compensation for membership of the Loan Approval, Executive and Audit Committees: EUR 0.6 thousand p.a. (previous year: EUR 0.6 thousand)

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

Members of the Federal Government who serve on the KfW Board of Supervisory Directors in accordance with Section 7 (1) No 2 of the KfW Law waive their compensation pursuant to Section 4 (5) of the KfW By-Laws. With their self-imposed commitment these members of the Board of Supervisory Directors want to support the Government's Public Corporate Governance Code as well as the guidelines on corporate governance and, by waiving their compensation, even exceed the requirements therein.

Per diems (EUR 0.2 thousand per meeting day) and travel expenses are also paid on request.

The following table contains details on the compensation for members of the Board of Supervisory Directors in financial year 2009:

	Dates of membership in	Compensation
	2009	EUR in thousands
Former Federal Minister Peer Steinbrück ¹⁾	1 Jan.-27 Oct.	0
Federal Minister Dr Wolfgang Schäuble ¹⁾	28 Oct.-31 Dec.	0
Former Federal Minister Michael Glos ¹⁾	1 Jan.-10 Feb.	0
Federal Minister Dr Karl-Theodor Freiherr zu Guttenberg ¹⁾	12 Feb.-27 Oct.	0
Federal Minister Rainer Brüderle ¹⁾	28 Oct.-31 Dec.	0
Federal Minister Ilse Aigner ¹⁾	1 Jan.-31 Dec.	0
Dr Günter Baumann	1 Jan.-1 April	1.7
Anton F. Börner	1 Jan.-31 Dec.	5.7
Christian Brand	5 Aug.-31 Dec.	2.2
Dr Uwe Brandl	1 Jan.-31 Dec.	5.1
Frank Bsirske	1 Jan.-31 Dec.	5.1
Former Minister Prof. Dr Ingolf Deubel ²⁾	1 Jan.-31 Dec.	6.3
Prof. Dr Hans Heinrich Driftmann	27 May-31 Dec.	3.4
Former State Minister Prof. Dr Kurt Faltlhauser ²⁾	1 Jan.-31 Dec.	5.7
Former Federal Minister Sigmar Gabriel ¹⁾	1 Jan.-27 Oct.	0
Heinrich Haasis	1 Jan.-31 Dec.	7.0
Gerhard P. Hofmann	1 Jan.-31 Dec.	6.3
Minister Peter Jacoby ²⁾	1 Jan.-31 Dec.	5.1
Dr Siegfried Jaschinski	1 Jan.-19 May	2.6
Bartholomäus Kalb	1 Jan.-31 Dec.	6.3
Prof. Dr-Ing. Hans-Peter Keitel	1 Jan.-22 May	2.3
Minister President Roland Koch ²⁾	1 Jan.-31 Dec.	5.7
Dr h.c. Jürgen Koppelin	1 Jan.-31 Dec.	5.7
Waltraud Lehn	1 Jan.-31 Dec.	5.7
Minister Dr Helmut Linssen ²⁾	1 Jan.-31 Dec.	5.7
Dr Gesine Löttsch ³⁾	1 Jan.-31 Dec.	5.1
Claus Matecki	1 Jan.-31 Dec.	5.1
Dr Michael Meister	1 Jan.-31 Dec.	5.7
Franz-Josef Möllenberg	1 Jan.-31 Dec.	6.3
Minister Hartmut Möllring ²⁾	1 Jan.-31 Dec.	5.1
Klaus-Peter Müller	1 Jan.-23 Mar.	1.4
Federal Minister Dirk Niebel ¹⁾	28 Oct.-31 Dec.	0
Minister President Matthias Platzeck ¹⁾	1 Jan.-31 Dec.	0
Federal Minister Dr Peter Ramsauer ¹⁾	28 Oct.-31 Dec.	0
Federal Minister Dr Norbert Röttgen ¹⁾	28 Oct.-31 Dec.	0
Alexander Rychter ³⁾	1 Jan.-31 Dec.	5.6
Christine Scheel ³⁾	1 Jan.-31 Dec.	5.7
Hanns-Eberhard Schleyer	1 Jan.-31 Dec.	6.3
Andreas Schmitz	25 Mar.-31 Dec.	5.5
Dr Werner Schnappauf	5 Aug.-31 Dec.	2.2
Michael Sommer	1 Jan.-31 Dec.	5.7
Gerd Sonnleitner	1 Jan.-31 Dec.	5.7
Former Federal Minister Dr Frank-Walter Steinmeier ¹⁾	1 Jan.-27 Oct.	0
Ludwig Stiegler	1 Jan.-31 Dec.	6.3
Former Federal Minister Wolfgang Tiefensee ¹⁾	1 Jan.-27 Oct.	0
Federal Minister Dr Guido Westerwelle ¹⁾	28 Oct.-31 Dec.	0
Former Federal Minister Heidemarie Wieczorek-Zeul ¹⁾	1 Jan.-27 Oct.	0
Total ⁴⁾		160.0

¹⁾ Compensation waived²⁾ Amount determined by state law³⁾ Amount not yet called⁴⁾ Total compensation including amounts not yet called

Provisions in the amount of EUR 47,515 thousand had been set up at the end of the financial year for pension obligations for former members of the Managing Board and their surviving dependents (previous year: EUR 41,052 thousand). The regular compensation totalled EUR 3,619 thousand (previous year: EUR 3,617 thousand).

The total amount of loans granted to members of the Managing Board was EUR 87 thousand as at year-end (previous year: EUR 104 thousand). Interest rates were between 3 % p. a. and 4 % p. a.

20 years of *Aufbau Ost*

Twenty years after the fall of the Berlin wall, KfW can look back on a success story as far as its promotional activities are concerned: the new federal states once again have attractive city centres, healthy SME structures and modern infrastructures. The major successes are thanks in particular to people in both the east and the west of the country who exerted substantial effort and achieved a great deal. Many investments, however, were only made possible through KfW and its promotional programmes. KfW made loans available totalling EUR 161.5 billion to build up the SME sector, improve the housing situation and renovate municipal infrastructure in the new federal states.





SMEs, housing and infrastructure – KfW lays the foundation for solid development

9 November 1989 – images of the opening of the Berlin wall are broadcast worldwide: people embrace each other and dance for joy on the streets of Berlin. There was still a long way to go until reunification, but as soon as the wall came down, the people in power in both the east and the west were thinking about how best to help these two entirely different economic systems to grow together. In Frankfurt too, KfW came up with

initial concepts within the space of a week. The pressure was immense, because the first financing requests were being submitted to KfW as early as the turn of 1989/90. In the spring of 1990, however, the initial ideas had already been overtaken when the foundation was laid for the union of the two countries. KfW was now able to make use of tried-and-tested promotional programme models.

"The question was never whether we would help, but how".

Dr Ulrich Schröder, Chairman of the Managing Board

Establishing an SME sector

One thing was clear from the start: a strong SME sector is an absolute must for a healthy market economy, meaning that it was also indispensable for the reconstruction of the east. The conditions were anything other than favourable, as East Germany's commercial SME segment had been systematically destroyed from the 1970s if not before. Nevertheless, the desire to work for themselves and to take responsibility for their own work was something that never died out in the hearts of many. This meant that many East Germans embraced the "entrepreneurial adventure" with a great deal of enthusiasm, initiative and ultimately also success.

KfW started helping small businesses in eastern Germany as early as February 1990, first via the ERP Special Fund modernisation programme, and later through its own SME programme. The SME sector was established astonishingly quickly in the new

federal states. While KfW focused on modernisation and the growth of SMEs, Deutsche Ausgleichsbank (DtA), which was merged with KfW in 2003, offered targeted support to new start-ups. Since there was just as much demand for expert advice as there was for financial support, KfW opened an advisory centre in the former Hotel Metropol on Berlin's Friedrichstrasse in March 1990 – a nucleus for the broad range of advisory services that KfW is known for today. All in all, KfW has made around EUR 82 billion available to commercial enterprises in the former eastern states, including Berlin, since 1990.



Housing modernisation

City centre areas pay particular testimony to how sustainable the financial support provided by KfW has been. In the former East Germany, historical buildings were left to decay dramatically. At the same time, new, prefabricated concrete housing estates were constructed, although these also fell into disrepair very quickly. KfW was responsible for an impressive turnaround in the residential construction sector. As early as October 1990, it launched the KfW Housing Modernisation programme for the new federal states, continually increasing the funding available in the years that followed. Initially, it was mainly private homeowners who both invested a lot of their own time and effort, and made use of low-cost KfW loans, to renovate their homes. From 1993 onwards, there was a considerable boom in measures to modernise prefabricated concrete buildings following the clarification of questions surrounding ownership and the problems associated with old debt. The Federal Government and the federal states assumed a large part of the old debt, which was transferred to

housing cooperatives and municipal housing construction companies as the new owners of the prefabricated concrete homes. This "old debt support", which KfW was responsible for processing, signalled the start of the modernisation of the prefabricated housing estates.

KfW made around EUR 60 billion available for housing modernisation projects, improving housing standards across the board. 61% of the 7 million homes that existed when the East German state collapsed were modernised with the help of KfW loans. The programme also helped to boost employment in the newly formed SME sector considerably, by securing orders for skilled craft businesses for many years. The environment also reaped benefits from the wave of modernisation; many homes were better insulated and fitted with more modern heating technology, resulting in considerable energy savings.

Protecting the environment

KfW's promotional measures also focused on municipal investments, and particularly on environmental protection. Starting as early as February 1990, existing programmes such as the ERP Special Fund's environmental loan programme and KfW's own programmes were opened up to the new federal states. Finally, in September 1990, the Federal Government approved a municipal loan programme for the eastern German municipalities, and commissioned KfW and DtA to fund investments made by the local authorities. KfW expanded its range of financing products to include "implementation support". It offered advice to

municipalities, helping them to find optimum financial and technical solutions for their infrastructure projects.

KfW made a total of EUR 18 billion available for infrastructure modernisation programmes. The success of these programmes can not only be seen – more importantly, it can be smelled and tasted. Air pollution was cut dramatically, and there was a considerable reduction in the often extreme volumes of wastewater that had been flowing into rivers.

Challenges

Twenty years after the fall of the Berlin wall, the new federal states once again have an efficient SME sector. Living standards have improved markedly, and the infrastructure is often better than in the western states. Nevertheless, there is still a lot to be done. Environmental and climate protection issues are more important now than ever before, and have become one of KfW's major cross-cutting tasks, one which is also the focus of KfW's

promotional activities in the residential construction segment. The SME segment is a particular focal point of KfW's assistance. Many of the new companies are still very small and do not have sufficient capital resources to finance growth investments. It remains KfW's task to offer targeted support to these small companies – be they in eastern or western Germany. After all, young and innovative companies lead to growth and employment.



A new SME sector emerges

Several waves of expropriation turned East Germany into a country with no SMEs. In the early 1990s, earnings per capita in eastern Germany were less than half of those in the western states. A new SME sector had to be established in order to get the economy back on track. KfW was part of this effort from day one.

Renovation boom in the east

The picture in many cities in East Germany was similar: historical city centres were falling ever further into disrepair, with people living in grim prefabricated concrete buildings on the outskirts. Very soon after reunification, KfW launched low-interest loan programmes to improve living conditions and save historical buildings.



Infrastructure and clean air

The "characteristic scent of East Germany" has become a thing of the past thanks to 20 years of investment in refuse management, energy saving, hydraulic engineering, noise control and air pollution control. KfW offered low-interest loans to kick infrastructure improvement measures swiftly into gear. Today, infrastructure in eastern Germany is functional again, and, in many cases, it is much more modern than in the west of the country. This forms the basis for continued successful development.

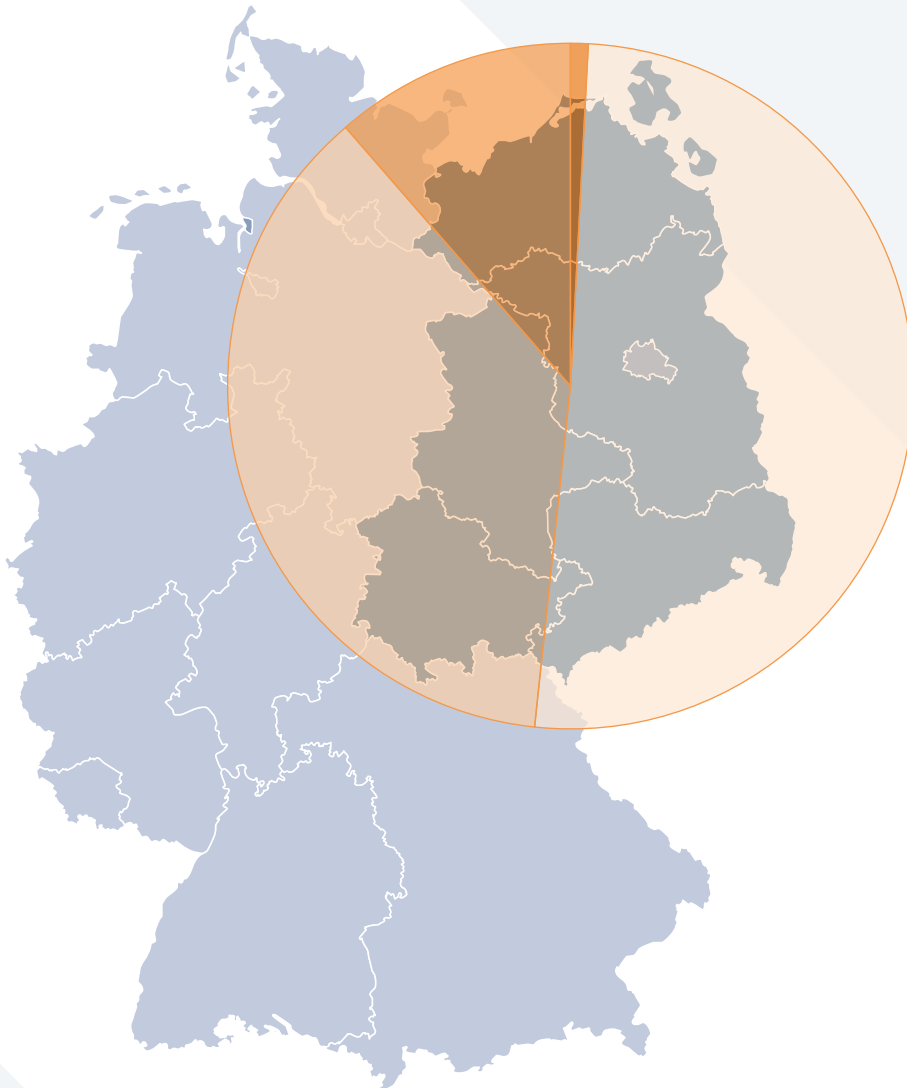
Late successes of the Marshall Plan

The successful *Aufbau Ost* reconstruction project was possible because KfW was able to base its promotional measures on existing, tried-and-tested programmes and, in particular, on funds from the US Marshall Plan. Whereas the Soviet Union banned Eastern Bloc countries from making use of Marshall Plan funds after the Second World War, the loans became crucial to the reconstruction of the west. The repayments from the loans were invested in ERP funds in the long term, meaning that they then became available for reconstruction projects in eastern Germany. Whereas DEM 3.7 billion from the Marshall Plan was invested in reconstruction projects in the Federal Republic of Germany, DEM 19 billion was pumped into the former East Germany.



Billions for businesses, citizens and education

Financial support provided by KfW Bankengruppe (including DtA) for the former East German federal states in the period from 1990 to 2008



EUR in billions; Source: KfW

Total: 161.5

Financial support

Volume
EUR in billions

Education	1.5
Infrastructure	18
Housing	60
SMEs	82



KfW Bankengruppe – our mission statement

We are one of the leading and most experienced promotional banks in the world. We use our knowledge and our energy to improve economic, social and ecological living conditions.



Managing Board of KfW Bankengruppe

The Managing Board of KfW Bankengruppe in the historical foyer of KfW's branch office in Berlin Mitte. From left to right: Dr Norbert Kloppenburg, Dr Günther Bräunig, Dr Ulrich Schröder (Chairman), Dr Axel Nawrath (from 1 April 2009), Bernd Loewen (from 1 July 2009).

KfW has laid the foundation for sound development in the new federal states with its promotional instruments. By the end of 2009, loans had been granted in the amount of over EUR 161 billion, more than half of which was invested in establishing healthy SME structures, and a further EUR 60 billion in renovating houses and apartments. In the context of the reconstruction of the east (*Aufbau Ost*), KfW focused on client proximity right from the start. An important springboard was and is KfW's Berlin branch, at whose listed office building on Berlin's Gendarmenmarkt square the picture was taken.



KfW Bankengruppe in 2009



Economy on tour: KfW close to the customer

Along with the Federal Ministry of Economics and Technology, KfW took the "economy on tour" from 28 May to 16 July 2009. Two info buses visited main squares in 64 cities, informing entrepreneurs, citizens and communities about the promotional opportunities of the Federal Government's two economic stimulus packages. Around EUR 52.5 billion is available for 2009 and 2010, EUR 40 billion of which is earmarked for entrepreneurs and the self-employed. The primary goal is to grant loans to companies that face difficulties as a result of the financial crisis. The tour was a great success: KfW advisors held more than 7,800 individual meetings in the various locations. An additional 1,700 people received information at 21 accompanying evening events.



Energy from the depths: Uptrend for geothermal energy

The Federal Ministry for the Environment, KfW Bankengruppe and Munich Re launched a loan programme in February 2009 to develop geothermal energy in Germany. Together they are providing loans totalling EUR 60 million to finance geothermal deep drilling. This programme reduces projects' non-discovery risk. Because of the risk of not finding resources, high drilling costs are often the biggest hindrance to investment in geothermal projects. Commercial use of deep geothermal energy for heat and/or electricity generation depends on finding suitable "geothermal hotspots" underground. Investments often amounting to more than EUR 10 million per project are subject to risk.

New members in the Managing Board: KfW management team complete

As a new member of the KfW Managing Board, Dr Axel Nawrath (55) has been responsible for domestic promotional business since 1 April 2009. With Nawrath, who holds a PhD in law, as a member of the Managing Board, KfW has gained a recognised expert in banking and financial markets. In his previous function as State Secretary in the Federal Ministry of Finance, Nawrath also chaired the Steering Committee of the Special Fund for Financial Market Stabilisation (*Sonderfonds Finanzmarktstabilisierung - SoFFin*). Bernd Loewen (43) was appointed as a new member of KfW's Managing Board as at 1 July 2009 and is responsible for finance and risk. Loewen, an experienced banker with an international profile was most recently a management board member of the Polish BRE Bank SA in charge of treasury, financial institutions and capital market business.

Drawing a positive balance: 20 years of *Aufbau Ost*

KfW faced a tremendous task after the fall of the Berlin Wall in 1989. It launched a unique reconstruction programme within a very short time. KfW has since provided heavily reduced-interest

loans in the amount of EUR 161.5 billion to build up the SME sector, improve the housing situation and renovate municipal infrastructure in the new federal states. Today people there again have attractive city centres, healthy SME structures and the benefits of a modern infrastructure. The major successes are thanks in particular to people in both the east and the west of the country who exerted a lot of effort and achieved a great deal. A major part of the investments, however, were only made possible through KfW and its promotional programmes.

Efficient with all types of energy: KfW receives Green Building prize

KfW was awarded the city of Frankfurt's "Green Building Frankfurt" architectural prize for two of its office buildings in November. The jury reasoned that KfW has "set standards in sustainable construction". The prize recognised the revitalisation of the main building and the energy-efficient new "Ostarkade" building at the Frankfurt location. An ecologically sound overall concept of sustainable building use was implemented in the two buildings using innovative technology, both in the renovation and in the construction of the new building; they are thus exemplary in terms of environmental protection and energy efficiency.

Strength in numbers: EIB and KfW against the crisis

The European Investment Bank (EIB) and KfW Bankengruppe in April 2009 jointly underscored their willingness to continue the already approved packages aimed at stimulating recovery of the European economy, given the development of the financial markets and the current economic crisis. The two institutions announced their intentions to advance in particular support for small and medium-sized enterprises (SMEs) as well as for energy, environment, climate change and infrastructure, with a focus on central and eastern Europe. Moreover, the EIB and KfW have announced that they will form a further global climate protection fund to reduce CO₂ emissions which is tailored to SMEs.

"Marguerite": A pan-European infrastructure fund

The leading European public financial institutions launched the pan-European infrastructure fund "Marguerite" in December 2009 with initial capital totalling EUR 600 million. The founders aim to achieve a fund volume of EUR 1.5 billion by the final closing in 2011. "Marguerite" is an equity fund which aims at boosting infrastructure investments that help to implement EU policy in the areas of climate change, energy security and trans-European networks.

KfW funding: Capital market stress test passed

In 2009, KfW raised almost EUR 74 billion in funds on the international capital markets to fulfil its promotional mission, which was within the range of the issue volume announced. Major issuers found it extremely difficult to act due to the high volatility of the capital markets and the constantly changing conditions. It was thus all the more positive that as a reliable, transparent and sustainable issuer, KfW successfully passed the "funding in the financial market crisis" stress test. KfW's refinancing strategy thus proved to be very successful in 2009 as well.





Domestic promotion – strongly positioned for the future

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

Domestic promotion in 2009



Targeted expansion of commercial environmental and climate protection financing

KfW promotes commercial environmental and climate protection investments in the newly launched "ERP Environmental Protection and Energy Efficiency Programme" and KfW "Renewable Energies" programme. The latter achieved a financing volume of EUR 5.5 billion; thus KfW is and will remain the most important promoter of renewable energies in Germany. As part of the measure initiated by the Federal Government to secure jobs by strengthening growth (package of measures I), KfW provided additional funding for energy efficiency and innovations in 2009.



"KfW Special Programme": Securing liquidity during the crisis

The "KfW Special Programme", which was newly launched at the end of 2008 and had a commitment volume of EUR 7.2 billion in 2009, made a fundamental contribution to securing financing particularly for SMEs. KfW supports 2,500 companies through this programme (plus individual loans granted under global loans). Although the programme is also aimed at big companies, the SME sector in particular benefits from the offering, making up 94% of all commitments. During the course of the year, the further development of the programme also resulted in improved demand from big companies. With its offer of working capital finance, KfW helped numerous companies to overcome tight liquidity situations. Overall in 2009, more than 1.2 million jobs were either secured or created by the two packages of Federal Government measures (packages I and II) implemented by KfW – 750,000 alone via the "KfW Special Programme". KfW Mittelstandsbank achieved a record commitment volume of EUR 23.8 billion during the crisis year. This shows that KfW is a reliable partner to SMEs.

An overview of energy efficiency: New promotional programmes for homeowners

KfW restructured its promotional activities in the areas of new energy-efficient buildings and energy rehabilitation as at 1 April 2009. The two new programmes "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation" replace the earlier "CO₂ Building Rehabilitation", "Housing Modernisation – ECO PLUS" and "Ecological Construction" programmes. Funding is provided for investments in energy rehabilitation and the construction of energy-efficient new homes. In restructuring the programme, KfW increased the volume of promotional funding in 2009 by almost 40% to EUR 8.9 billion. This enabled energy-efficient construction or rehabilitation of nearly 620,000 residential units and a permanent CO₂ reduction of 1.45 million tonnes.

Senior-friendly conversions: KfW reacts to demographic change

Only eight months after the beginning of the "Senior-friendly Conversions" promotional programme, KfW draws a positive balance: with 2,195 loan commitments totalling around

EUR 213 million, largely private house and apartment owners converted more than 20,000 residential units to be suitable for senior citizens or the disabled. A good 25% of them had the bathroom enlarged or remodelled. Measures also included widening doorways, installing elevators, lifts and ramps, and creating additional space to manoeuvre in sitting rooms and bedrooms. The figures prove that KfW correctly predicted the conversion need of many homeowners to make their residences more senior-friendly.

Investment offensive: Expansion of regional infrastructure

KfW launched its "Investment Offensive Infrastructure" under the Federal Government's stimulus package I on 1 April 2009 to enable municipalities with weak structures to make the necessary investments in their infrastructures also during the economic and financial crisis. In this initiative, which was initially funded with a total of EUR 3 billion in additional volume of lending and will run until 2010, KfW grants reduced-interest loans to municipalities ("Municipal Loan"), municipal enterprises ("Municipal Investment") and charitable organisations ("Social Investment"). In the remainder of 2009, the initiative granted 503 loans with a volume of EUR 604 million, which helped to secure 19,000 jobs at an investment volume of EUR 1.2 billion.

New programmes "IKK" and "IKK flex": Long-term direct loans for municipalities

Since the beginning of 2009, municipalities have had access to long-term direct loans for investments and measures to finance investment in municipalities and social infrastructure as well as in housing projects, via the new "Investment Loans for Municipalities" programme (IKK, abbreviation based on the German). The "Investment Loans for Municipalities – flexible" (IKK flex), an offer of financing support for municipalities enabling very flexible reaction to individual client needs, e.g. concerning repayment modalities, was also launched at the beginning of the year. Demand was so high that a lending volume of EUR 529 million was realised.

Domestic promotion – A record year with major challenges

KfW domestic promotion considerably exceeded the volume of the previous year; in fact, 2009 recorded the highest volume of promotional funding in Germany in the history of KfW. Nevertheless, domestic promotion faced major challenges, focusing on implementation of the Federal Government's stimulus packages. A further focus was promoting environmental and climate protection. A record promotional business volume was also achieved in this area. Thus, with the help of KfW, important investments were initiated that contributed to safeguarding a large number of jobs.

KfW recorded a promotional business volume of EUR 50.9 billion in 2009, thus exceeding the result for 2008 by around 12%. Investments amounting to EUR 67.6 billion were co-financed and more than 2.6 million jobs secured or created. A record volume of around EUR 16.5 billion was achieved in environmental and climate protection, thus reducing carbon emissions by more than 5 million tonnes.

New organisational structure for domestic promotion

KfW optimises domestic promotion with a new organisational structure

At the beginning of 2009, the organisational structure of domestic promotion was aligned and customised even more clearly to the different client groups. This included redefining the priorities of KfW Mittelstandsbank, as well as establishing the two business areas KfW Privatkundenbank and KfW Kommunalbank. KfW Privatkundenbank is responsible for promoting housing and education finance of private individuals, while KfW Mittelstandsbank bundles all offerings for start-ups, enterprises and the self-employed.

KfW Kommunalbank is responsible for investment finance in municipal and social infrastructure, agency business for the Federal Government, and domestic as well as European global loan business. The central "Sales" function was newly created. It bundles all of KfW's sales activities for the domestic promotional business. This function supports sales partners, multipliers (e. g. associations and chambers) and end clients. Clients in municipal direct lending business are supported by the Kommunalbank business area.

Highest promotional business volume in Germany in the history of KfW

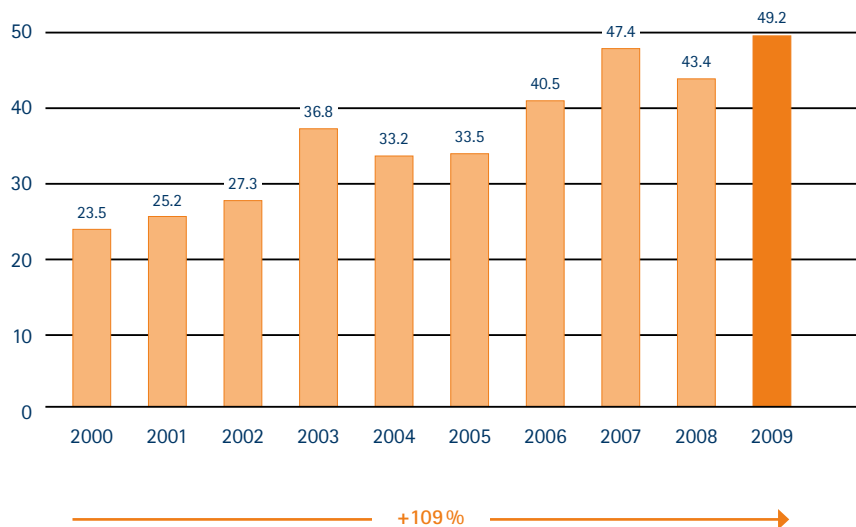
In 2009, KfW recorded the highest domestic promotional business volume in its history: EUR 50.9 billion.

KfW promoted economic, environmental, housing, municipal and educational measures in Germany in 2009 to the tune of EUR 50.9 billion (including securitisations; EUR 49.2 billion excluding securitisations), which was the highest domestic promotional business volume in its history. KfW granted EUR 23.8 billion to commercial enterprises alone, with the lion's share going to SMEs. The "KfW Special Programme" launched at the beginning of 2009 made a significant contribution, with loan commitments totalling EUR 7.2 billion by the end of the year. Of the almost 2,500 loans provided under the "KfW Special Programme", around 94% were granted to medium-sized enterprises.

Thus investment finance in Germany has more than doubled since 2000. The promotional business volume of KfW Mittelstandsbank of EUR 23.8 billion has now reached the level of the total domestic promotional business volume of 2000 (EUR 23.5 billion).

Domestic financing volume¹⁾

EUR in billions



¹⁾ Excluding securitisation, from 2000 to 2002 excluding promotional business DtA, change in methods 2008 and 2009.

Promotional records 2009

- SME support: +40% to EUR 23.8 billion
- Energy-efficient construction and rehabilitation: +41% to EUR 8.9 billion
- Renewable energies: +35.7% to EUR 5.7 billion

Economic stimulus measures: KfW is providing EUR 5.2 billion until 2011

KfW is supporting the Federal Government's implementation of its two packages of measures (packages I and II).

KfW is making a sizeable volume of lending available until 2010, and in some cases even until 2011 under the economic stimulus programme (packages I and II of the Federal Government), to secure financing of enterprises and to stimulate investments. The majority of this serves to promote commercial investments via KfW Mittelstandsbank. The "KfW Special Programme" to finance enterprises constitutes the largest part. Additional funding was granted in 2009 to

improve operational energy efficiency and finance innovations. Additional funding also went to increase the programme to promote energy efficiency in residential buildings and to the newly launched "Senior-friendly Conversions" programme at KfW Privatkundenbank. KfW Kommunalbank made further low-interest loans available for investments in municipal infrastructure under its "Investment Offensive Infrastructure".

KfW made a total volume of lending of EUR 52.5 billion available for the economic stimulus programme. Around EUR 41 billion of this serves to promote commercial investments, of which EUR 40 billion was granted under the "KfW Special Programme" and up to EUR 1 billion for industrial environmental protection and promotion of innovation. Up to EUR 3 billion was generated in the area of infrastructure with an additional EUR 8.5 billion in lending volume for energy-efficient construction and rehabilitation. Overall in 2009, EUR 19.1 billion was committed under the packages of measures I and II implemented by KfW. This initiated an investment volume of just under EUR 32 billion, while securing and creating approximately 1.25 million jobs.

Four KfW components of the stimulus packages

Four KfW components (from 2009 until 2011 in some cases)		Volume of lending – EUR in billions
1. Corporate financing, particularly to SMEs	<ul style="list-style-type: none"> • New programme: KfW Special Programme 	approx. 40.0
2. Energy-efficient construction and rehabilitation	<ul style="list-style-type: none"> • Stepping up the existing programmes for energy-efficient construction and rehabilitation • New programme: Senior-friendly Conversions 	approx. 8.5
3. Innovation and energy-efficiency of enterprises	<ul style="list-style-type: none"> • Stepping up existing programmes: <ul style="list-style-type: none"> - ERP Innovation Programme - ERP Energy Efficiency Programme - ERP Start Fund • New programme: <ul style="list-style-type: none"> - KfW Programme Renewable Energies – Supplement 	approx. 1.0
4. Infrastructure	<ul style="list-style-type: none"> • New programme: Investment Offensive Infrastructure 	approx. 3.0
Total		approx. 52.5

Differences in the totals are due to rounding.

KfW's domestic environmental and climate protection

As the promotional bank of the Federal Government and the federal states, KfW believes that it has a special responsibility to protect the environment and climate in Germany and beyond the country's borders. To this end, KfW further expanded its support for domestic environmental and climate protection in 2009. Environmental finance is divided amongst the three business areas KfW Privatkundenbank, KfW Kommunalbank and KfW Mittelstandsbank.

Creation of nationwide uniform standards for energy efficiency of residential buildings

In 2009, KfW substantially revised the structure of its promotional programmes for energy rehabilitation and the construction of energy-efficient new homes.

The financing conditions for energy-efficient housing were simplified and harmonised.

Promotion of energy efficiency measures in housing construction with loans and grants was combined and simplified as of 1 April 2009 by largely harmonising financing conditions in the two programmes "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation". The two new programmes replace the former "CO₂ Building Rehabilitation", "Housing Modernisation – ECO PLUS" and "Ecological Construction" programmes. The financing conditions are based on the statutory building regulations that builders must observe anyway when constructing new buildings or

rehabilitating existing ones. The uniform financing standard is the KfW Efficiency House.

The measure was implemented in collaboration with the German Federal Ministry of Transport, Building and Urban Affairs and the German Energy Agency dena as a certificate of energy efficiency. Based on the Energy Conservation Ordinance (EnEV), the KfW Efficiency House offers a uniform standard for the whole of Germany for evaluating the energy efficiency of residential buildings. Our promotional products have also gained considerably in simplicity and transparency through this.

The better the energy efficiency achieved, the more attractive KfW's support.

The promotional logic continues to prevail: The better the energy efficiency achieved, the more attractive KfW's support. The promotional programmes are aimed at everyone who invests in construction of a new building or rehabilitation of residential buildings that are either owner-occupied or rented out. The low-interest loans are the main promotional instrument in financing major projects. Such loans are enabled partly through a reduced interest rate, the entire volume of which was increased through the stimulus packages using funds from the Federal Ministry of Transport, Building and Urban Affairs, and partly through favourable refinancing opportunities, which KfW achieves on the capital markets thanks to Federal Government guarantees.

Those who undertake rehabilitation at the KfW Efficiency House level also receive a repayment bonus of up to 15% of the loan amount depending on the primary energy requirement achieved, in addition to the very low-interest promotional loan. KfW thus pursues an approach that is open to all kinds of technology and, in contrast to the former programmes, it does not prescribe any packages of measures. Alternatively, individual measures that are sophisticated in terms of energy may be promoted under rehabilitation. Grants are also given for qualified construction supervision during the rehabilitation phase, replace-

ment of off-peak storage heaters and optimising heat distribution in existing heating systems.

KfW distributes all housing promotion loans via the investor's own bank. The investor's own bank thus assumes full liability for the loans granted. The principle of disbursement through the investor's own bank ensures that the promotional funds are granted to creditworthy investors and that they are used for economically viable projects. Private owners of single-family and two-family houses as well as homeowner associations may also apply for the grants directly from KfW.

With the new promotional standards, KfW has established a reliable framework for the construction of new energy-efficient buildings and energy rehabilitation, which industry, construction companies, tradesmen, energy consultants as well as private builders and housing companies can use as a guide. Moreover, KfW will further develop its promotional standards for the KfW Efficiency House focussing on the new directive from the European Parliament and the Commission which has been announced concerning overall energy performance of buildings. The EU Directive provides for all private buildings to be constructed as "near zero-energy buildings" from 2021 on.

WWF and E3G award 1st place to KfW programmes

At international level, the promotional products on energy efficiency in residential buildings have met with great interest and received a great deal of recognition. A study commissioned by WWF and the independent not-for-profit organisation E3G examined nearly one hundred climate policy measures from the G20 countries in 2009 in terms of climate and economic aspects. This study awarded first place to the KfW programmes for energy-efficient construction and rehabilitation. The study expressly commended the integrative approach to promotion in combination with the Energy Conservation Ordinance (EnEV), the short and long-term effectiveness of CO₂ reduction, and the positive effects on the job market.

KfW Efficiency Houses – ideas we build on

KfW Efficiency Houses are residential and public buildings that do not exceed a certain level of annual primary energy requirement and transmission heat loss. The EnEV (Federal Government's Energy Conservation Ordinance) stipulates these limits. For example, in accordance with the EnEV valid since 1 October 2009, a KfW Efficiency House 85 requires only 85% of the energy of a comparable newly constructed building. The important thing for clients to note is that the KfW Efficiency House 85's energy requirement is thus 15% better than the legal standard for a corresponding new building.

Bundling municipal environmental promotion

The business area KfW Kommunalbank has assumed the environmental and climate protection measures of municipal institutions since 2009.

Since 2009, domestic environmental and climate protection promotion in the municipal and social area has been bundled in the KfW Kommunalbank business area. Energy rehabilitation of schools, school gymnasiums and swimming pools, child daycare centres and buildings for work with children and young people is supported via two programmes: "Social Investment – Energy-Saving Building Rehabilitation" and "Energy-Efficient Rehabilitation – Municipalities", which replaced "KfW Municipal Loan – Energy-Saving Financing Windows" on 1 January 2009. A choice may be made between rehabilitating to achieve a KfW Effi-

ciency House 100 and undertaking individual measures or packages of measures. The investments are funded at a reduced interest rate from the Federal Government for a maximum period of ten years. The programme "Social Investment – Energy-Saving Building Rehabilitation" is focused on non-profit organisations. The promotional programme "Energy-Efficient Rehabilitation – Municipalities" is open to local and municipal authorities, their legally dependent self-operated divisions, and municipal and special-purpose associations for public building rehabilitation measures.

New structure of promotion for industrial pollution control and climate protection

KfW restructured its promotion for domestic industrial pollution control and climate protection at the beginning of 2009. The overlaps that existed in the environmental programme thus far as regards the target groups and areas in which the financial support can be used were eliminated. The aim was to make promotion of renewable energies more visible and to increase overall transparency in industrial pollution control and climate protection promotion. In addition, the restructuring has made a considerable improvement to the support available to small companies.

Restructuring commercial climate protection promotion has increased transparency and improved support for small enterprises.

Environmental and climate protection investments are now supported via two programmes: "ERP Environmental Protection and Energy Efficiency Programme" and KfW "Renewable Energies" programme. The "ERP Environmental Protection and Energy Efficiency Programme" finances, for example, general environmental protection measures in the areas refuse and sewage management, and air pollution control and energy efficiency measures. SME energy efficiency measures are supported with especially favourable interest rates under the "Special Fund for Energy Efficiency". These include building services and energy technology measures as well as machinery and measurement and control technology.

Moreover, KfW also continues to provide support in energy-efficient construction of new buildings or rehabilitation of commercial buildings with low-interest loans. In addition to pure financing, comprehensive consultancy services are also available under the "Special Fund for Energy Efficiency".

The new KfW programme "Renewable Energies" comprises financing of all measures for the use of renewable energies and consists of the two programme components "Standard" and "Premium". The programme offers long-term, low-interest loans. The "Standard" component funds the use of renewable energies, including photovoltaic, wind, biomass and biogas energies, to generate electricity and heat.

The "Standard" funding is also available for projects outside Germany. The "Premium" programme funds measures for the use of renewable energies on the heating market on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU, abbreviation based on the German). These include plants for the combustion of solid biomass, large solar thermal collectors, heating networks, thermal storage systems and plants for the use of deep geothermics. In addition to low-interest loans, reduced repayment amounts are granted under the "Premium" component using Federal Government budget funds.

KfW provided additional funding for energy efficiency in 2009 as part of the measure by the Federal Government to secure jobs by boosting growth (package I). The favourable ERP loans from the "Special Fund for Energy Efficiency" were offered with even more favourable terms through additional Federal Government funds.

Moreover, the KfW "Renewable Energies" programme was limited to 2009 and expanded to include promotion for bigger projects. This supplemental programme finances projects dealing with renewable energies to generate electricity and heat with financing requirements between EUR 10 and 50 million. Projects that demonstrate how new processes can contribute to environmental protection are promoted under the "BMU Environmental Innovation Programme".

Moreover, KfW supports the acquisition of environmentally friendly commercial vehicles weighing twelve tonnes or more. Both programmes are characterised by particularly favourable interest rate conditions and provision of grants. KfW also offers financing for geothermal deep drilling including pro rata assumption of the risk of not finding resources.

2009 record promotional business volume in domestic environmental finance despite difficult market environment

Investments in the housing and commercial area boost environmental finance to a new record level.

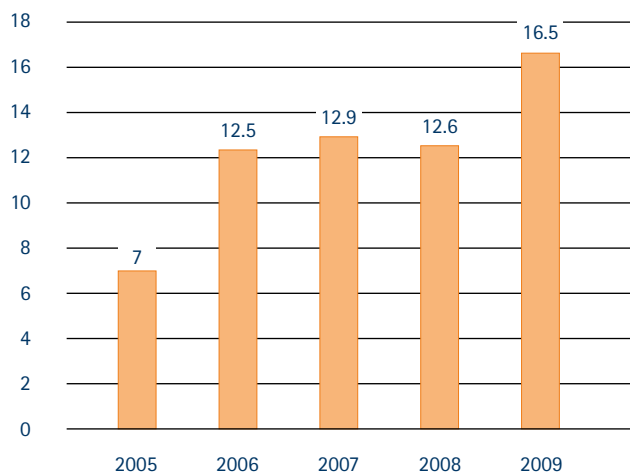
Since 2005, KfW has expanded its domestic environmental and climate protection promotion. Overall, the promotion of domestic environmental and climate protection has since more than doubled and constitutes almost 30% of total KfW business volume today. Thus, financing environmental and climate protection is KfW's second most important promotional focus after promotion of SMEs.

The fact that the volume of domestic environmental and climate protection promotion increased even beyond the record year of 2008 is positive, particularly in view of the difficult market environment. This increase is especially based on KfW's environmental finance in the commercial and housing area.

Demand for KfW Privatkundenbank's "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation" programmes, which were increased with the stimulus package, has risen considerably with the volume of funding for industrial pollution control increasing mainly due to heavy demand in the new KfW "Renewable Energies" programme. The promotional business volume in 2009 in these programmes exceeded that of 2008 by more than one third. This record proves that KfW's new promotional standards and the KfW Efficiency House have been successfully established on the market.

Development of the promotional business volume in domestic environmental and climate protection

EUR in billions



The promotional volume of domestic environmental finance rose to around EUR 16.5 billion in 2009 (+31 % year-on-year). Funding for industrial pollution control rose by around 23 % to almost EUR 7 billion as against EUR 5.7 billion the previous year.

The "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation" programmes with a promotional business volume of EUR 8.9 billion exceeded the 2008 result of EUR 6.3 billion by just under 40 %. Additionally, around EUR 521 million was attributable to the infrastructure area.

Overall in 2009, CO₂ was reduced by more than 5 million tonnes with more than 800,000 jobs secured or created.

This quite positive development makes evident that despite the difficult market environment, demand for financing offers for environmental and climate protection measures remains high. KfW will also be advancing environmental and climate protection as a main theme of its promotional policy in 2010.

An enterprise that gives clean energy a new tailwind

Renewable energies are on the upswing. Wind energy with increasingly larger plants is clearly one of the leaders, making an important contribution to environmentally friendly energy provision. For this reason, expansion plans of the northern German wind energy plant constructor Nordex did not come out of thin air. The company, which is located in Rostock, develops,

produces and sells wind energy plants worldwide. The production plant in Rostock was expanded with a KfW loan from the "KfW Special Programme". The investments in the amount of EUR 75 million are being used to expand the production plants for rotor blades as well as to reconstruct nacelle production and the rotor test bed.





Nordex CEO Thomas Richterich has used the investment financing received as a foundation for the company's growth strategy in order to strengthen the Rostock location. The company whose headquarters are located in Norderstedt operates production sites in Germany and China and is set to begin operations in the USA as well. Nordex employs a staff of 2,250 worldwide. It ranks globally among the top ten in the industry with its multi-megawatt class wind energy plants. Through the investment programme, Thomas Richterich is ensuring that the company's wind turbines will spin a little faster, as there is no lull in sight in this rock-solid industry.





A managing director who transports good ideas with new lorries

Giso Gillner is quite a mover. As Managing Director of EcoCraft Automotive GmbH however, he does not only think about the transport services of his newly developed EcoCarrier. He is much more concerned about the technology behind the light lorries that has the potential to make a whole section of the industry rethink their options. Gillner's vehicles run on electricity. With its development, production and sales of cost-effective commercial vehicles, the Wunstorf-based company is an innovator in the automotive sector.



A new technical era has dawned with mass production of street-legal electric vehicles. As the EcoCarrier transports goods noiselessly and completely exhaust-free, this vehicle is predestined for inner-city transport. Moreover, the expense required to operate the EcoCarrier is far below operating costs of traditional vehicles. The chassis is constructed on the basis of an aluminium frame designed by the company itself and which it has mass produced at the VW plant

in Sarajevo. The 25 employees at the Wunstorf production site handle the manufacture of prototypes and final assembly. KfW provides the company with a stable financial framework. It has funded Wunstorf's environmentally friendly vehicles with equity financing of EUR 1.25 million from the "ERP Start Fund" because the right financial support helps good ideas to pick up speed.

Business area KfW Mittelstandsbank

With its KfW Mittelstandsbank business area, KfW serves as a partner for business start-ups, self-employed professionals and SMEs. The area comprises the commercial priorities "start-up and general investments", "innovation" and "environment". By launching the "KfW Special Programme", KfW has provided active support for enterprises' financing requirements during the financial and economic crisis while also creating a new focus on the environment, innovation and start-up financing.

SME finance
once again
highlights KfW's
strength as an
economic driver.

Finance for start-ups and SMEs constitutes KfW's most important promotional area and that which has the highest volume. Despite the historical decline in GNP and the related decrease in corporate investments and financing demand, the commitment volume still rose year on year. This underscores KfW's importance as a promoter of SMEs.

With a commitment volume of around EUR 23.8 billion, the business area actually considerably exceeded its excellent 2008 result of EUR 17.0 billion (+40 % year-on-year).

SME finance at a time of sliding business investment

In times of crisis, the importance of KfW to SMEs grows.

The commercial promotional programme and particularly the "KfW Special Programme" must be viewed within the context of the overall economic situation. The conditions underlying enterprises' demand for investment loans was extremely unfavourable in 2009. During the global financial and economic crisis, Germany's aggregate output slumped to a degree never experienced in the history of the German Federal Republic. This resulted in industrial capacity utilisation in the fourth quarter of 2009 still remaining far below the historical lows thus far of 1975 and 1982 caused by the two oil crises, despite the slight recovery, and even further below the level seen in the most recent heavy recession in 1993. Moreover, medium-term company sales prospects are mixed at best in view of numerous burden factors and risks. In this environment, companies plan fewer capacity-generating expansion investments, opting instead for replacement and rationalisation investments. For this reason, company investments in new equipment, commercial buildings and other plants decreased by 14 % year-on-year. A similar rate of negative growth and thus a new record low in corporate investments nationwide must also be considered for the year as a whole.

Despite SMEs having significantly felt the massive recession of 2009, the crisis hit big companies harder. In addition to the financial sector, foreign trade in

2009 was the primary channel through which the recession's effects were spread and mutually reinforced across the globe. Due to the parallel slump in demand for practically all trading partners, the major companies that are very strongly focused on the global market suffered a particularly negative impact from the worst recession the world economy has seen since the end of World War II. In contrast, SMEs, which largely tend to be focused on the domestic economy, were hit somewhat less hard by the crisis. This was due not least to the fact that because domestic demand in 2009 developed at a noticeably more stable rate than exports, thanks to economic impetus.

Against the backdrop of these conditions, the positive development of commercial financing volume is all the more impressive. KfW has been in demand, especially during the financial and economic crisis, with its long-term financing offering. The development of the financing volume in 2009 clearly shows that KfW is not only perceived as a reliable partner for SMEs, but that companies also actively demand its programme offering in order to cushion themselves against the intensity of the crisis.

"KfW Special Programme": Support for enterprises in times of crisis

Governments, banks and associations co-develop financial crisis exit strategies for affected enterprises.

The "KfW Special Programme" makes an important contribution to supporting enterprises in the economic and financial crisis. It focuses on financing investments as well as working capital. Additional promotional funding was granted in the form of global loans under the "KfW Special Programme". In planning and implementing the programme, KfW communicated closely with the Federal Government, banks, associations and company representatives. Internal and external impetus was actively accepted.

KfW has also extended its promotional product offering to big companies and project financing since expansion of the "KfW Special Programme" and after conclusion

of the Federal Government's measure package II. This includes companies with a turnover of EUR 500 million and project finance above a debt financing volume of EUR 50 million. In this context, KfW also made organisational changes to its KfW Mittelstandsbank lending departments to suit this extended offering. KfW is using expert teams with special experience in the risk lending business such as in acquisition and equity financing to implement these plans with a higher level of complexity and lending volume. To process direct loans and syndicated financing, KfW set up its own special department, also consisting of experienced professionals and specialists.

The "KfW Special Programme" established itself on the market in 2009 with a commitment volume of around EUR 5.7 billion. An additional EUR 1.5 billion was granted in the form of global loans under the "KfW Special Programme".

Overview: "KfW Special Programme" versions

SMEs

- The self-employed and SMEs with an annual turnover of up to EUR 500 million are eligible to apply for the "KfW Special Programme".
- The maximum loan for investments is EUR 50 million per project with an overall maximum loan amount of EUR 150 million. A liability exemption option of 50% or 90% is available.
- The loan limit for financing working capital including storage facilities amounts to EUR 50 million with a liability exemption option of a maximum of 60%.

Large companies

- Large companies without access to the capital markets, with annual turnover of more than EUR 500 million are eligible to apply for the programme.
- The maximum loan per group of companies is generally EUR 300 million. Financing is granted to investments in Germany. A liability exemption option of 50% or 70% is available.
- The loan limit for financing working capital or covering general financing requirements (in both cases a maximum of 30% of the last financial year's total assets) is EUR 300 million. A liability exemption option of 50% is available.

Project finance

- Project companies that invest in Germany with majority private ownership independent of annual turnover and that of their shareholders, are eligible to apply to the "KfW Special Programme".
- Applications may be made for up to EUR 200 million per project.
- For project financing that is on-lent through banks, the maximum portion of financing KfW grants is 70% of the total debt financing. A liability exemption option of 50% is available.
- For project financing as a direct loan, maximum KfW financing is 35%.

With the Special Programme KfW also offers banks global loans to refinance their corporate loans.

Moreover, KfW has continuously optimised its promotional activity based on its experience, feedback from banks and discussions in the banking industry. For example, KfW has offered global loans to banks since the end of September 2009 under the "KfW Special Programme". Banks can thus fund flexible and customised loans for SMEs as well as for large companies.

In view of the difficult economic situation, the "KfW Special Programme" also offers a number of shipyards and ship owners favourable financing conditions, enabling their own banks to avail themselves of risk reduction. In addition to traditional ship purchases, pre-delivery financing is also available. These are used to bridge the period before construction of a ship is concluded and it is delivered.

Although the "KfW Special Programme" was also opened up to large companies as well as the SME sector, the latter benefited in particular. Priority is given to loans in economy sectors that have been particularly hard hit by the crisis. For example, the manufacturing industry has disproportionately high representation. The motor vehicle construction, mechanical engineering, and metal manufacturing and processing sectors have been particularly affected. The high number of working capital loans granted reflects companies' liquidity bottlenecks resulting from the crisis.

94% of the commitments made to individual applications for the "KfW Special Programme" are for companies with less than EUR 500 million in annual turnover. The volume of lending is below EUR 500 thousand for more than two thirds of the commitments. 70% of the commitments are working capital loans.

Commitments totalling around EUR 6.4 billion were granted under "KfW Entrepreneur Loan".

Although commercial financing was covered to a certain extent by the "KfW Special Programme" and the investment propensity of companies was restrained due to the economy, a high lending volume was committed once again under the "KfW Entrepreneur Loan".

KfW innovation and equity finance

Equity finance addresses the innovative strength of small and medium-sized companies.

Just under a third of innovation expenses in Germany are borne by enterprises with fewer than 500 employees. This means that SMEs assume an important position in the German innovation system. They make a significant contribution to structural change and to creating new jobs that are assured a future.

In the area of innovation financing, KfW promotes innovation activity in the SME sector under its

"ERP Innovation Programme". This serves the long-term financing of close-to-market research and development of new products, processes and services as well as their market launch. The financing consists of a traditional loan and a subordinated loan. Additional Federal Government funds were made available in 2009 for this ERP programme among others. KfW was thus able to offer a high volume of lending with attractive conditions.

The loans granted under the "ERP Innovation Programme" rose over the previous year by approximately 37% to EUR 1.2 billion.

In collaboration with the Federal Ministry of Economics and Technology (BMWi, abbreviation based on the German), KfW mobilises capital for technology-oriented enterprises under the "ERP Start Fund". KfW's general approach is to acquire equity investments without participating in management of the enterprise.

However, the basic requirement is that an additional investor participate at the same amount or higher and under the same economic conditions. The "ERP Start Fund" was increased, or extended, using funds from the Federal Government's package of measures I.

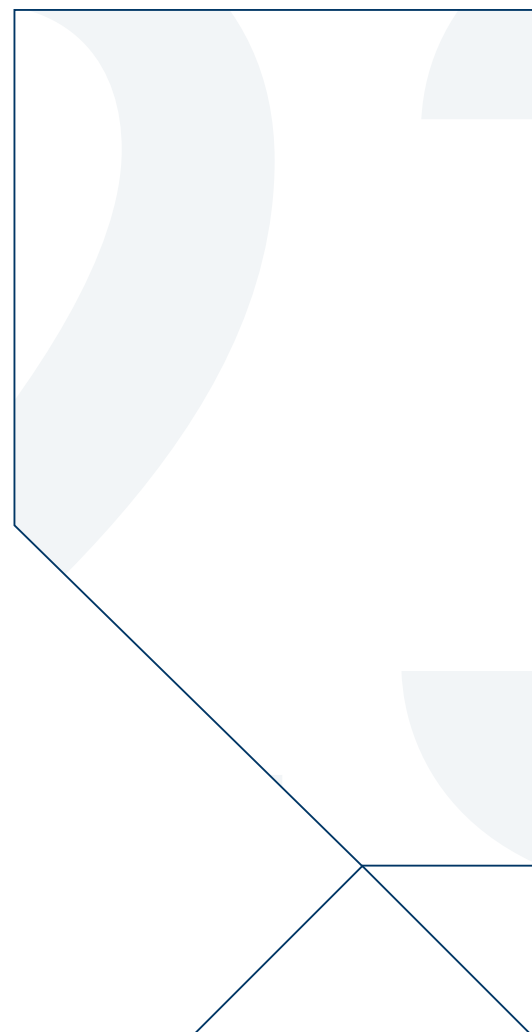
Expansion of industrial environmental protection

Two new products were developed to further expand industrial environmental protection in the year under review: The "ERP Environmental Protection and Energy Efficiency Programme" and the KfW "Renewable Energies" programme. In addition, KfW promotes geothermal deep drilling, the acquisition of environmentally friendly commercial vehicles and projects with demonstrative character. Further details are provided in the "KfW's domestic environmental and climate protection" section.

Launch of a new risk-adjusted interest system effective 1 December 2009

Risk-adjusted interest: Applicant credit quality and collateral are key in determining rate of interest.

The introduction of a risk-adjusted EU reference interest rate system made it necessary to modify KfW's risk-adjusted interest system (RGZS, abbreviation based on the German). The new RGZS applies to all loan commitments as of 1 December 2009. The price class is also determined depending on the credit quality of the applicant and the value of the collateral in the new RGZS as well. A special risk tolerance applies to commitments in the "KfW Special Programme" under the RGZS.



Record business volume in 2009

The record commercial promotion result is composed of an excellent overall result in promoting start-up and general investments. The "KfW Special Programme" makes an important contribution here.

The priority support areas "start-up and general investments", along with "innovation" and "environment" are developing positively.

In addition to the areas of "start-up and general investments", "innovation" and "environment" have also shown overall positive development. A significant increase was even recorded in financing SME innovation projects, which are particularly important to growth and employment.

In industrial pollution control financing, the weak demand for capital goods had a more noticeable impact; however in the KfW "Renewable Energies" programme disproportionately strong demand is currently being recorded compared to the previous year. KfW thus remains the most important promoter of renewable energies in Germany.

In promotion of commercial investments, KfW achieved a result of EUR 23.8 billion. Investments totalling EUR 37.3 billion were initiated and more than 2 million jobs were secured or created. EUR 15.5 billion was attributable to the promotion of start-ups and general investments. The "KfW Special Programme" reached a commitment volume of EUR 5.7 billion and an additional EUR 1.5 billion in global loans.

An increase of almost 36% to around EUR 1.3 billion was recorded for SME innovation projects (2008: EUR 951 million).

A commitment volume of EUR 5.5 billion was recorded in the KfW "Renewable Energies" programme nearly doubling the volume of the previous year. KfW thus remains the most important promoter of renewable energies in Germany.

Volume of promotional financing of the business area KfW Mittelstandsbank as at 31 December 2009

Programmes	Promotional business volume		Purpose
	2008	2009	
	EUR in millions	EUR in millions	
Total KfW Mittelstandsbank¹⁾	17,027	23,766	
Start-up and general investments	10,408	15,480	
KfW Special Programme	–	7,162	Corporate investments under the economic stimulus measures
KfW Entrepreneur Loan	9,010	6,365	Investments of start-ups and SMEs
Entrepreneur Capital	363	291	Mezzanine finance to support start-ups and SMEs
KfW StartGeld (start-up funds)	159	165	Financing for start-ups and small enterprises
ERP Regional Promotion Programme	438	351	Improving the regional economic framework
ERP Participation Programme	65	66	Private equity for small and medium-sized enterprises
Special financing economic stimulus packages	–	786	
Other promotional programmes	375	293	
Innovation	951	1,291	
ERP Innovation Programme	888	1,220	Mezzanine finance to support innovative projects by small and medium-sized enterprises
ERP Start Fund	63	71	Private equity for new innovative technology companies
Environment	5,667	6,996	
ERP Environmental Protection and Energy Efficiency Programme ²⁾	2,745	1,323	Environmental protection projects in Germany
KfW Renewable Energies Programme ³⁾	2,824	5,508	Measures to promote renewable energies, e.g. photovoltaic systems
ERP Environment - Commercial Vehicles (including grant programme)	98	81	Acquisition of energy-efficient commercial vehicles above 12 tonnes
Non-discovery risk in deep geothermics	–	–	Geothermal deep drilling in Germany
BMU Environmental Innovation Programme (including grants)	–	84	Projects with demonstrative character in the area of environmental protection

Differences in the totals are due to rounding.

¹⁾ Change in method 2008 and 2009: Grant promotion based on grant volume rather than investment volume. Prior-year volume was also adjusted.

²⁾ Including the former programmes "ERP Environmental Protection and Energy Saving Programme" and "ERP Energy Efficiency Programme"

³⁾ Including the former programmes "KfW Environmental Protection Programme" and "Solar Power Generation", "KfW Programme to Promote Renewable Energies"

"KfW's record result again this year appears that much more impressive in the shadow of the severe financial market crisis".

Commitments by the business area KfW Mittelstandsbank in 2009, by federal state



Federal state	Volume EUR in millions ¹⁾
Bavaria	3,919
Baden-Württemberg	4,205
Saarland	162
Rhineland-Palatinate	1,046
Hesse	1,689
Thuringia	329
Saxony	600
North Rhine-Westphalia	3,802
Lower Saxony	1,735
Saxony-Anhalt	503
Brandenburg	675
Mecklenburg-Western Pomerania	732
Schleswig-Holstein	787
Bremen	275
Berlin	471
Hamburg	684
No information ²⁾	1,572
Outside Germany	579

¹⁾ Incl. global loans to commercial banks
²⁾ Not attributable to a particular federal state



A family preparing for retirement years at home

The demand for senior-friendly housing is increasing as the German population ages. However, according to a study by the German Association of Independent Real Estate and Housing Companies (BFW), only 1% of properties in Germany meet senior-friendly housing requirements. According to the BFW study, approximately 800,000 homes would need to be customised to meet the needs of older people by 2020. KfW promotes senior-friendly conversions with up to EUR 50,000 to drive this rehabilitation forward. Only minimum technical requirements must be met for qualification. Private property owners, housing companies and the public authorities are eligible to apply.



Elfriede and Werner Konder from the town of Schweich on the Mosel were the first applicants planning to improve accessibility in their own home for when they are older with the help of the new KfW programme. EUR 50,000 of the total EUR 160,000 costs for conversion and modernisation work on their property were used to make it more senior-friendly.

The first eight months of the programme, launched in April 2009, were successful. More than 20,000 housing units were converted to be senior or disability-friendly using around EUR 213 million. These figures prove that KfW correctly assessed the need in this area – and so did Werner Konder. The physically active property owner also had a gym constructed as part of his senior-friendly conversion in an effort to maintain his own mobility for as long as possible.



A private client taking precautions against high energy consumption



In addition to industry and transport, private households are among the biggest energy consumers in Germany. In fact, it is the non-commercial property market that can achieve enormous energy savings at comparably moderate costs. KfW recognised this savings potential early on and promotes it through customised financing solutions. These primarily include the successful "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation" programmes.



Property owners such as the Althaus Family in Heppenheim also took advantage of such promotional measures. Their two-family house built in 1963 belongs to the property class that lends itself particularly well to efficient modernisation. The construction project enabled these homeowners to meet all energy-efficiency requirements. With the low interest-rate loan granted by KfW, they completely rehabilitated the building structure and modernised the energy technology. Controlled ventilation with heat recovery now ensures lower heating costs. With the addition of polyurethane insulation, new windows based on the passive house standard and a solar water heating system, energy to operate the 47-year-old house is now generated at a state-of-the-art standard. And the investment paid off. Claudia and Martin Althaus are not only pleased that their participation won the dena "Efficiency House – Energy Efficiency and Good Architecture" competition. In addition to their permanently lower energy costs, their model project also earned them a 20-percent repayment bonus on the loan.



Business area KfW Privatkundenbank

The KfW Privatkundenbank business area was created in 2009 from the former KfW Förderbank. All promotional offers for private end clients and housing companies have been bundled into this area. The business area also includes promotion of individual education and training measures. Its housing programmes are especially valuable to promote home ownership and the energy-efficient and senior-friendly modernisation of residential buildings. The programme thus makes important contributions to education, climate protection and in relation to demographic change.

The challenge of demographic change – realignment of housing promotion

The increasing proportion of older people in the population is shaping Germany's demographic change. The conversion of housing to accommodate the changing population structure is thus one of our society's central challenges. After all, older people should be able to live independently in their familiar surroundings for as long as possible.

To this end, KfW introduced the "Senior-friendly Conversions" programme in 2009. Interest rates in this programme are reduced from Federal Government

budget funds. In this way, KfW supports conversion of residential buildings to make them more accessible. This not only benefits people whose mobility is limited as a result of age or disability, but also families with children. There had previously been no practicable or generally recognised market standards for the design of accessible housing.

KfW defines standards for improving accessibility in existing homes.

This programme enables definition of a uniform standard to improve accessibility in residential accommodation for the first time, across the whole of Germany. The promotion gives the housing market an important orientation point for designing accessible buildings. In agreement with the Federal Government, KfW will be further developing and expanding the "Senior-friendly Conversions" promotional programme in a targeted manner in 2010.

Furthermore, promotion of energy efficiency in residential buildings was combined and simplified as of 1 April 2009 in the two programmes "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation", and the programme funds were increased. The objective is to promote energy-efficient rehabilitation measures or construction projects for housing by offering low interest rates and grant opportunities. The replacement of the previously known programmes "CO₂ Building Rehabilitation", "Housing Modernisation – ECO PLUS" and "Ecological Construction" also simplified the programme structures. Further information is provided in the "KfW's domestic environmental and climate protection" section.

The "KfW Home Ownership Programme" was launched in 1996. With this standard product for housing promotion, KfW uses own funds to support the construction and purchase of private residential property. In 2009 alone, it facilitated ownership of residential property in around 65,000 cases. KfW promotes general modernisation of existing homes with its "Housing Modernisation Standard" programme.

KfW has assumed a pioneering role in Germany with its housing programmes. It sets promotional standards that can also be used by the special credit institutions of the federal states and adapted to specific regional circumstances.



KfW Award 2009

KfW presented the KfW Award for the seventh time in 2009. This time, the award recognised private builders who rehabilitated their houses to save energy, thus responsibly and aesthetically dealing with the existing structures.

Selection of the winners took account of the life cycle assessment of materials used, the maintenance of identity and character of the residential environment and the regional building tradition. Overall, a total of 360 builders from across Germany submitted applications. The jury selected five of them as winners because they met the requirements in a particularly exemplary manner.

Financing that pays off: KfW Student Loans

KfW plays a
key role in
financing education
in Germany.

The "KfW Student Loan" plays a key role in promoting education in Germany. As a stand-alone innovative loan programme, it supplements the federal promotional systems. This flexible and low interest-rate KfW loan programme enables an increasingly larger number of young people to be accepted onto and complete a higher education degree.

The numbers of applications and loans granted have also drastically risen in the programmes offered by the Federal Government and the federal states, which they have commissioned KfW to process. The amendment to the Career Advancement Promotion Act (*Aufstiegsfortbildungsförderungsgesetz – AFBG*) in the summer of 2009 considerably expanded the pool of applicants to the "Meister BAföG" grant programme.

Now not only those in training to become a master craftsman receive this support, nearly all participants in Federal Government or Chamber of Commerce and Industry certificate training courses are eligible. Moreover, the amount of support was increased.

The number of BAföG bank loans granted, which offer students in advanced training stages low-interest support, also rose.

As a strong partner to the Federal Government and the federal states, KfW has reinforced its central role in financing education in Germany since 1996.

The volume of lending in the educational sector rose in 2009 by 32%, from EUR 1.3 billion to nearly EUR 1.7 billion. The volume lent under the "Meister BAföG" grew by 20% to EUR 242 million. BAföG bank loan commitments increased from EUR 38 million to EUR 44 million. The "Education Loan" volume grew from EUR 62 million to EUR 71 million.

Around 70,000 students in Germany currently benefit from the "KfW Student Loan". They receive an average of EUR 480 per month to finance their living expenses, with a maximum of EUR 650 possible.

Record financing volume in 2009

The programmes for energy-efficient construction and rehabilitation are becoming a driving force for private investments.

Despite the reduction in loans granted under the KfW "Home Ownership" and "Housing Modernisation Standard" programmes, KfW continued to expand its role as financing institution for investments in housing in 2009.

This was mainly the result of the very high demand under the "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation" programmes. These two programmes achieved a new record promotional business volume in the year under review. Furthermore, the number of commitments under the "Senior-friendly Conversions" programme has developed encouragingly since its launch on 1 April 2009.

The "Energy-Efficient Construction" and "Energy-Efficient Rehabilitation" programmes achieved a commitment volume of around EUR 8.9 billion and thus well exceeded the 2008 promotional business volume of approximately EUR 6.3 billion by close to 40%. The KfW "Senior-friendly Conversions" programme achieved a loan volume of EUR 213 million with accessibility conversions of more than 20,000 homes.

Promotion of housing
investments secures
many jobs in skilled
manual trades.

The business area thus set a new record in total financing volume. This enabled not only financing for a large number of homes but also provided an important impetus to SMEs and small skilled craft businesses in the middle of the economic crisis, thereby creating and saving many jobs.

The KfW Privatkundenbank business area achieved a promotional business volume of around EUR 16.1 billion. KfW thus financed more than 821,000 homes, among other projects. Investment volume totalled EUR 26.8 billion; around 426,000 jobs were either saved or created for one year.

Promotional business volume of the business area KfW Privatkundenbank as at 31 December 2009

Programmes	Promotional business volume		Purpose
	2008	2009	
	EUR in millions	EUR in millions	
Total KfW Privatkundenbank¹⁾	14,856	16,094	
Housing	13,577	14,407	
Energy-Efficient Construction and Rehabilitation ²⁾	6,343	8,864	Energy-efficient construction of new homes and energy rehabilitation of residential buildings
<i>Energy-Efficient Construction</i>	2,389	3,094	
<i>Energy-Efficient Rehabilitation</i>	3,953	5,769	
KfW Home Ownership Programme	4,650	3,851	Acquisition of residential property
Housing Modernisation: Standard	2,235	1,308	Modernisation of residential buildings
Housing Modernisation: Senior-friendly Conversions	–	213	Conversion of residential accommodation to improve accessibility
Global loans to the housing industry	350	170	
Education	1,278	1,687	
AFBG (Meister BAföG)	201	242	Loans for working people
BAföG government loans	528	625	
Education Loan	62	71	Student loans
BAföG bank loans	38	44	
KfW Student Loan	424	680	
Tuition fee loans	26	25	

Differences in the totals are due to rounding.

¹⁾ Change in method 2008 and 2009: Grant promotion based on grant volume rather than investment volume. Prior-year volume was also adjusted.

²⁾ Including the former "CO₂ Building Rehabilitation", "Housing Modernisation – ECO PLUS" and "Ecological Construction" programmes

"The volume of promotional lending of KfW Privatkundenbank business area sends a strong signal for the future during the financial crisis".



An organisation puts all its energy into modernising a small building





Providing energy to a building is not child's play – especially when it involves caring for children. For this reason, the management board of the German Red Cross in Osnabrück decided on a substantial rehabilitation plan for the German Red Cross children's daycare centre in Gretesch-Lüstringen. The years had taken their toll on the building, which was built in 1953. Carsten Steins, district director of the German Red Cross in Osnabrück, and the head of the daycare centre Daniela Meinders took on this demanding challenge and put their plan into action.

Total costs for the project amounted to EUR 462,000, with EUR 110,000 for energy rehabilitation alone. The external walls and roof were insulated, the lighting modernised and gas heating replaced by a state-of-the-art condensing boiler.

A low-interest loan granted under the KfW "Social Investment – Energy-Saving Building Rehabilitation" programme provided the funds for the energy rehabilitation. An additional EUR 225,000 for other conversion work came from the KfW "Social Investment" programme. This secured the German Red Cross low interest rates for the next 20 years. The remainder was composed of a grant from Germany's state-owned lottery company of EUR 40,000 and own funds.

KfW also ensured quick project implementation from the very beginning. The loan applications were approved within just one week, and the applicants received the first funds a month later. The children now benefit the most, as Daniela Meinders and Carsten Steins can dedicate a lot more energy to childcare in the future.



A city doing a great deal for its future



Comparing Husum with a lighthouse is rather fitting to the image of coastal landscape. This town on the North Sea coast has become a strong hub in the North Frisian region over the past 20 years. Special priority was given to maintaining a balanced relationship between urban and economic development. Establishing the city as the venue for the world's largest wind energy trade fair has clearly given it a tailwind. And with the "Husum on the Upswing" programme, Rainer Maaß, the town's mayor, wants to bring even more fresh wind to the regional economy.





The town decided at the end of 2007 to expand its exhibition centre to include a conference and event venue with construction scheduled to start in April 2009. Total cost of the project including construction of a link road amounted to EUR 16.1 million. EUR 12 million of this was financed by the state of Schleswig-Holstein and through an EU grant; EUR 0.4 million came from the North Frisian district. The town of Husum's own share remained EUR 3.75 million, of which EUR 2.65 million stemmed from KfW's "Municipal Loan – Investment Offensive Infrastructure".

The design plan includes a generous exhibition area in addition to a large multifunctional room and a number of state-of-the-art conference and seminar rooms. Completion is expected as early as August 2010. This will enable concerts, theatrical performances, conferences and seminars to be held there in addition to trade fairs, because Rainer Maaß hopes to combine economic vitality and quality of life under one roof in the town of Husum.

Business Area KfW Kommunalbank

The third newly established business area under domestic promotion is KfW Kommunalbank, which was also created from the former KfW Förderbank in 2009. This division bundles promotion of municipal and social infrastructure projects as well as a variety of different transactions on behalf of the Federal Government. Moreover, it is responsible for all financings of government promotional and commercial banks via KfW global loans in Germany and other European countries. With its promotional offerings, the business area supports not only expansion of infrastructure but it also makes a contribution to energy rehabilitation of public buildings and to improving the financing offering of German and European financial institutions.

New economic incentives in infrastructure financing

Special financing offerings for municipalities create new investment incentives.

2009 was dominated by the global financial crisis for this business area, and the bank was on hand to provide quick and efficient support to municipalities. With its "Investment Offensive Infrastructure", KfW and the Federal Government provided clear economic incentives by promoting municipal and social infrastructure projects at low interest. Thus within the framework of the Federal Government's first package (boosting growth to secure jobs), KfW's three basic programmes for infrastructure financing were endowed with low-rate interest with the help of additional federal budget funds. In the special programmes for infrastructure investments that expire in 2010, KfW primarily promotes municipalities and municipal associations as well as municipal and charitable enterprises.

The programmes focus on structurally weak regions. Moreover, municipalities not among the target areas of the joint task of "Improving the regional economic framework" but that experience an emergency budget situation or one in which their budget needs to be secured can also take advantage of the favourable investment finance limited to 2010.

Parallel to the primarily cyclical factors, there was a further focus on updating the range of KfW's financing offers and making it more flexible for municipalities. Thus 2009 saw the launch of two new products: "Investment Loans for Municipalities" and "Investment Loans for Municipalities – flexible", which enable more customised financing offerings to suit the needs of municipalities.

However, data on loans granted under KfW municipal financing reflected a noticeable degree of caution on the part of municipal investors. Many municipalities and quasi-municipal enterprises that were willing to make investments mainly applied for grants from the Federal Government's second package of measures in 2009. Demand for the heavily subsidised KfW financings did not increase until the second half of the year, for example for additional financing to supplement a grant; thereafter this demand has continued to increase.

"KfW supports the continued economic recovery process of the new EU member states through promotional activity via global loans".

Caution in global loan business in Germany and Europe

KfW cooperates closely with the promotional institutions in Germany's federal states.

KfW cooperates closely with the promotional institutions in Germany's federal states. KfW cooperates closely with the 18 promotional institutions in Germany's federal states. It concludes global loans with them on the basis of its promotional programmes. Pooling KfW's promotional support and that of the promotional institutions in the federal states improves the conditions for the individual state programmes. This enables support measures for financing infrastructure projects, promotion of SMEs, creation of housing and energy-efficient building rehabilitation to be financed from a single source. The German promotional landscape thus becomes more transparent.

KfW grants global loans used to fund joint promotional activities beyond existing KfW promotional programmes via general funding through the promotional institutions in the federal states. Moreover, German commercial banks and Landesbanks also receive global loans for their customers' investment financings.

The global economic and financial crisis also took a heavy toll on EU countries in central and eastern Europe because the crisis interrupted these countries' rapid economic recovery process in some cases. At the same time, it is exactly these countries that have a particularly high investment need for energy efficiency and climate protection. To this end, KfW continued its promotional activity in this area in 2009 as well via global loans to promotional and commercial banks. Both SMEs and municipalities benefit equally from KfW funding lines. Constituting around 65%, the global loans granted for climate protection and energy efficiency investments represented a topical focus. A portion of the financings were granted on behalf of the European Commission. It provided support grants for product development and consulting.

Promotional result 2009

Overall, the volume of promotional lending to municipalities was less than in the previous year. This was due to the caution previously mentioned that municipalities exercised regarding financing options under the Federal Government's package of measures II "Boosting growth to secure jobs" as well as to the reduction in global lending business in Europe as a result of the banking crisis.

The overall view of 2009 shows that at 18%, the number of municipal financings was higher than in

the previous year while commitment volume recorded revealed a slightly declining tendency. This is due to general investment reticence in an economically difficult environment, which is reflected in a lower volume per application. The 2009 volume of lending is distributed more or less in proportional to the number of residents in each of the different federal states. The new federal states, along with Berlin, Bavaria and Lower Saxony primarily benefitted from the commitment volume of the "Investment Offensive Infrastructure" due to the EU promotional area focus.

Volume of promotional financing of the business area KfW Kommunalbank as at 31 December 2009

Programmes	Promotional business volume		Purpose
	2008	2009	
	EUR in millions	EUR in millions	
Total KfW Kommunalbank¹⁾	11,561	9,358	
Infrastructure	2,135	1,982	
KfW Investment Loans for Municipalities	-	529	
<i>Standard</i>	-	509	
<i>Flexible</i>	-	19	
Investment Offensive Infrastructure	-	604	Investment in municipal and social infrastructures, also with special reduced rate of interest in this case under the Investment Offensive Infrastructure within the regional promotional areas
<i>Municipal Loans</i>	-	414	
<i>Social Investment</i>	-	100	
<i>Municipal Investment</i>	-	90	
KfW Municipal Loan with a financing window	1,103	143	
Municipal Investment	500	147	
Energy-Efficient Rehabilitation – Municipalities	-	111	Energy rehabilitation of schools, school gymnasiums and swimming pools, children's daycare centres and buildings for work with children and young people
Social Investment with a financing window	532	368	
Financial guarantees	0	79	Financial guarantees to municipalities
Global loans	9,426	7,377	
General funding of the promotional institutions in the federal states	9,135	7,269	Global loans to fund the promotional institutions in the federal states
Global loans Europe	291	108	Global loans to promotional and commercial banks in Europe

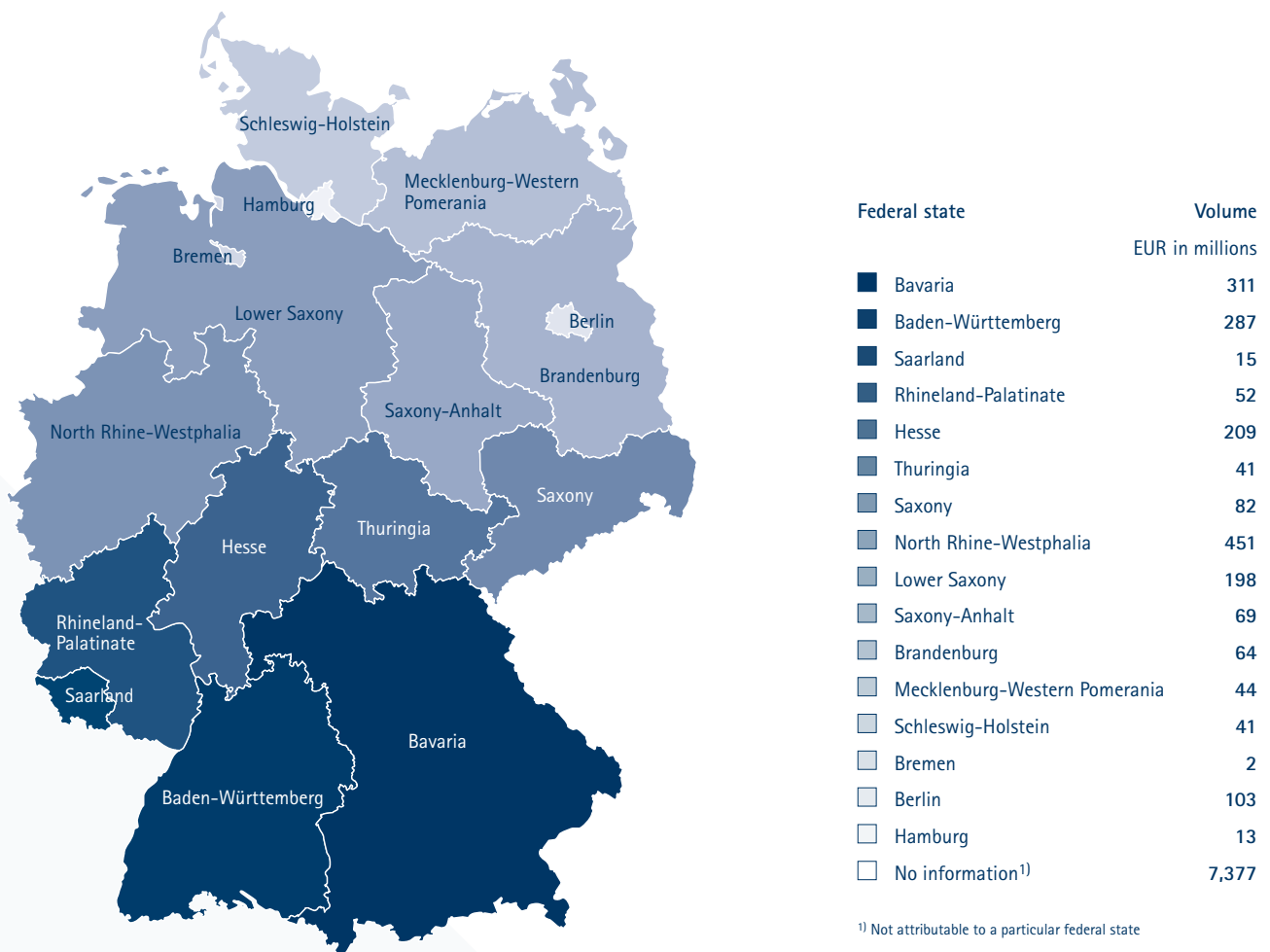
Differences in the totals are due to rounding.

¹⁾ Change in method 2008 and 2009: General funding of the promotional institutions in the federal states and global loans based on contract volume rather than disbursement volume.

The business area achieved a loan commitment volume of around EUR 9.4 billion, thus creating or securing 56,000 jobs with the investment volume of EUR 3.5 billion it generated. The loans granted for municipal investments totalled around EUR 2 billion, of which EUR 604 million was through the "Investment Offensive Infrastructure". The main beneficiaries were the new federal states with EUR 205 million, Bavaria with EUR 112 million, Lower Saxony with EUR 106 million and Berlin with EUR 84 million.

Global loans were granted in the amount of approximately EUR 7.4 billion. EUR 7.3 billion of this was attributable to general funding of the promotional institutions in the federal states. A total of EUR 108 million was granted in the global loan business for Europe.

Commitments by the business area KfW Kommunalbank in 2009, by federal state



Securitisations

The functioning of securitisation markets continued to be greatly limited in 2009. A clear restriction in risk premiums over most ABS asset classes, particularly in the AAA area, was evident on the secondary market in the second half of the year. However, the still relatively high spreads resulted in many securitisation transactions not being reasonably executable in economic terms. Therefore, securitisations were largely used for repo transactions for funding with the Euro-

pean Central Bank (ECB). The first primary market transactions were only executed again in isolated cases, primarily in the second half of the year. The overall unfavourable conditions also had an impact on the utilisation of KfW securitisation platforms. In 2009, only one transaction, with a volume of approximately EUR 1.5 billion, was executed via the KfW platforms.

German SMEs and housing have benefitted in particular from KfW's securitisation platforms. Around 109,000 SME loans and around 1.2 million mortgages have been financed since 2000. This created flexibility for securitising banks to grant new loans.

In view of companies' difficult financing conditions and banks' tight equity situation, securitisation is needed as a time-tested instrument for risk transfer. Sound quality securitisations can help to stabilise lending to enterprises.

Regaining the confidence of many investors is a significant condition for reviving the securitisation market. Establishing a premium market segment that sets certain quality criteria for German SMEs and mortgage securitisations could contribute to this. KfW is collaborating on this initiative with the other partner banks of True Sale International GmbH (TSI).

KfW aims to contribute to improved lending, in particular to SMEs, in 2010 as well, with top quality securitisation products.

Furthermore, KfW launched a programme to fund export loans covered by the Federal Government in order to mitigate the impacts of the financial market crisis. With this programme, KfW along with the Federal Government is ensuring that the German export economy has sufficient long-term funding means available in difficult times.

The programme to fund export loans covered by the Federal Government has a total volume of up to EUR 1.5 billion.

New "Sales" area strengthens customer loyalty

KfW introduced a comprehensive modernisation process in the year under review to align promotional activities more strongly to commercial, private and public-sector clients. This also includes establishing an independent sales function. It bundles all sales activities for domestic promotional business that are rendered involving sales partners. This move aims to better inform customers, sales partners and multipliers about individual promotional products.

The most important thing in sales: the sales partners

A hotline is available to sales partners for financing questions.

Central sales primarily relies on the tried and tested system of banks and savings banks as on lending institutions, and offers them comprehensive support. Furthermore, the sales strategy also involves the special credit institutions of the federal states. In financing education, KfW not only collaborates with banks but also student unions and financial service providers. Regional partners such as chambers of

industry and commerce, chambers of trades and crafts and energy agencies have also been involved as the first customer contact under the advisory support grant programmes. For questions concerning product offerings and specific financing requests, the special bank and sales partner hotline at KfW infocenters is available to sales partners.

Hotline

The sales partners utilised the bank and sales partner hotline as an information channel in approximately 92,000 cases in 2009.

Internet

KfW makes specific information available to its sales partners on the Internet via its KfW Advisors' Forum. This website registered more than 356,000 visits in 2009 alone.

KfW's sales partners receive further information on promotional products through targeted training seminars and intensive dialogue. Around 150 events of this type were held in the past year.

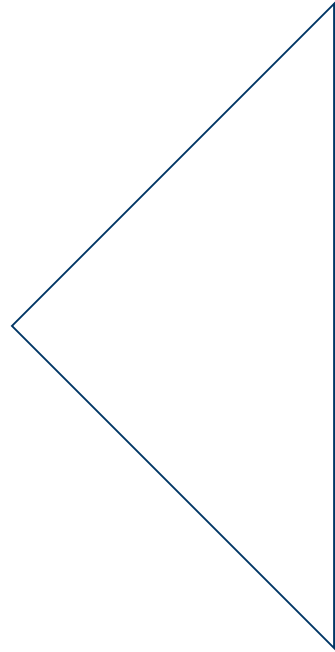
Key customers receive personal support under Key Account Management.

Key customers receive comprehensive personal support for all issues relating to KfW promotional products under Key Account Management. Moreover, Key Account Management is the central point of contact in accrediting new sales partners. This also includes initial provision of information on products and the processes relating to the application procedure. In 2009 alone, Key Account Management served as a competent contact in around 6,000 cases.

Information as required – advisory services for customers

KfW supports its customers through a comprehensive information and advisory service offering. KfW primarily provides these services via the Internet and the infocenters, but also in personal consultation at the Advisory Centres, and Open Days for Consultation as well as at trade fairs and information events. This offering is aimed at start-ups, enterprises, the self-employed and private customers as well as social institutions, municipal customers and the housing sector.

KfW has used the Internet for many years as the central medium to provide initial information to customers and partners. The stronger organisational focus on the different target groups which KfW has undertaken is now also evident in its Internet offering. Not least, the more user-friendly design of the website has resulted in visitor traffic rising again in the past year. Information on promotional products targeted at private customers and the housing sector continue to be in particular demand on the Internet.



Website: Increase in visitor traffic

In 2009, KfW Bankengruppe registered a total of around 16 million visits to its website, a 17% increase over the previous year. Approximately 10.3 million of these visits were for the domestic promotional business information offering, with a total of around 75 million page requests.

KfW set up a microsite called "investitionspaket.kfw.de" especially for promotion under the Federal Government's economic package. This enables interested parties initial quick and easy access to the "KfW Special

Programme". Feedback has shown that such target-group specific "mini websites" are well suited to disseminating information.

Start-up workshop for Germany

Start-ups are additionally supported via an information portal.

In summer 2009, the new Internet platform "www.gruendungswerkstatt-deutschland.de" went live. The start-up workshop is an information, qualification and advisory services platform for start-ups and small companies in the post-formation phase. It is operated by KfW in cooperation with chambers of industry and commerce, chambers of trades and crafts and start-up initiatives.

The internet platform "www.nexxt-change.de" offers advice on all issues related to company succession. It enables targeted searches for suitable business partners and successors.

Personal advisory services expanded

In addition to the Internet service, personal advice is the second main component of customer support. Customer contacts in the KfW infocenters focused primarily on the promotional offering in the areas of housing or education. Interested parties have the opportunity for a one-on-one consultation at the KfW locations in Berlin, Bonn and Frankfurt. The KfW

financing experts also presented the promotional offerings at regional and national trade fairs.

Of importance was not only the advice and information to customers and business partners but also their feedback.

Personal advice in high demand

A total of around 930,000 telephone and written customer requests were answered at the KfW infocenters in 2009. 47 % of customer contacts concerned the promotional offering in housing and 35 % in education. 2,300 interested parties received advice at the KfW locations. KfW presented its offering at 52 regional and 13 national trade fairs, and at 615 information events across the country, holding a total of around 25,400 consultations. KfW also received around 3,900 complaints in 2009. However, this corresponded to a year-on-year decrease of 31 %. The decline reflects how seriously KfW takes the feedback it receives.

Special offers for interested industry experts

KfW offers industry professionals special presentations with own speakers.

Multipliers constitute a special group of KfW customers. They are institutions and people with the potential to generate sales support for KfW, or public opinion-makers regarding issues that are important to KfW. KfW's multipliers include associations, chambers, experts and charitable institutions. In contact with their own clients or members, multipliers gain a great deal of information about financing requirements, utilisation willingness and how KfW's promo-

tional offerings are dealt with. For example, they can help clients prepare for the talks with the bank or provide support in the acquisition of funds.

KfW offers lectures across the country by its own speakers to meet this customer group's high demand for information. It provides editorial contributions as well as special supplements for member magazines, for example from chambers and associations.

KfW Academy

Renewable energies
were one of
the focal points
in 2009.

The offering by the KfW Academy, which has been successfully established on the market for many years, is aimed at the target group of multipliers as well as cooperation and business partners. Topics of focus in 2009 were "Successfully starting and developing a business", "Renewable energies and energy efficiency in companies" as well as "Energy-saving building rehabilitation for residential and non-residential buildings".

More than 1,700 people attended 31 KfW Academy events last year.

The importance of the multipliers to the sales process of promotional products continues to grow. KfW has addressed this by establishing a Key Account Management function for associations. This function closely advises associations, systematically providing members with promotional information, in a manner similar to the provision of support to sales partners.

Economy on tour

KfW stages a roadshow to inform citizens about the economic stimulus packages.

In addition to internal modernisation, KfW had a second major challenge to meet in the reporting year: supporting the Federal Government in implementing the economic stimulus packages. To this end, KfW embarked on new paths in sales and marketing. During the course of a 51-day roadshow, KfW consultants toured across Germany in two info buses,

offering advice in a total of 65 towns and cities. After the first event in Berlin on 27 May, KfW travelled around the country under the motto "Economy on tour", to inform enterprises, citizens and municipal representatives of KfW promotional opportunities under the Government's economic stimulus packages. The tour ended in Straubing on 16 July 2009.

Tour calendar

A total of more than 7,800 interested parties sought advice from the two buses. At the peak of the tour, 350 consultations were held each day. 52% of all consultations were on commercial promotion, particularly on the "KfW Special Programme". 44% requested information on KfW offerings for construction and building rehabilitation. The remaining 4% asked miscellaneous questions about promotion such as student loans. An additional 1,700 people received information at 21 accompanying evening events in chambers of industry and commerce and chambers of trades and crafts.



Advisory support – grants for utilising corporate consultants

KfW offers additional grants to start-ups as well as SMEs for utilising the services of an external consultant. Interested parties can select a suitable advisor from a pool of around 20,000 experts around the country

via KfW's Consultant Exchange, which was developed in collaboration with the Federal Ministry of Economics and Technology.

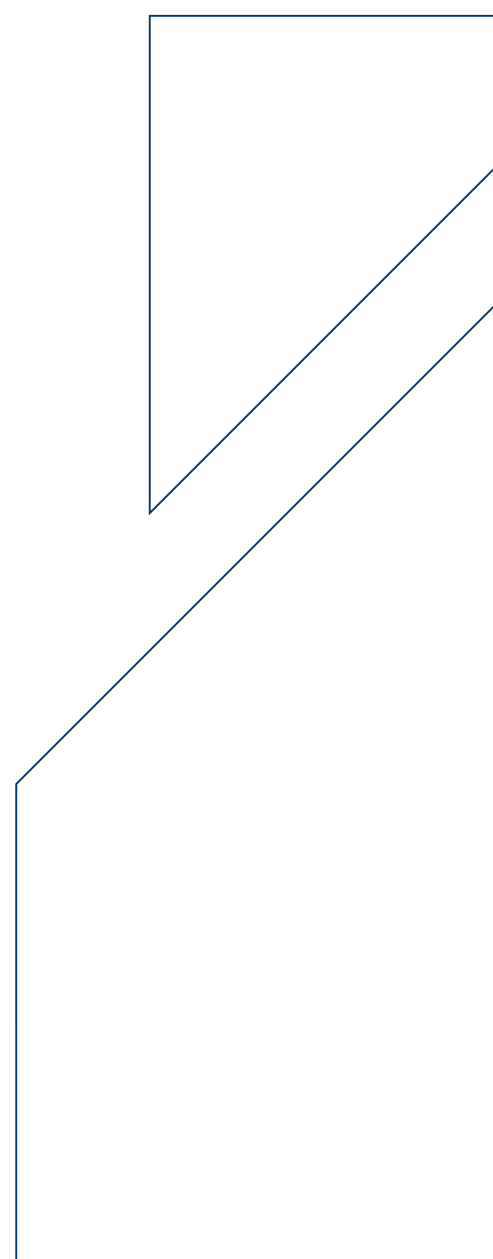
Start-up coaching

The lion's share of advisory support is received for "Start-up coaching in Germany", which KfW offers in collaboration with the European Social Fund (ESF), the Federal Ministries of Economics and Technology, and Labour and Social Affairs. It serves to increase the prospects of success and sustainably ensure newly formed enterprises for the first five years of their self-employment or start-up following unemployment.

Commercial energy efficiency

Commercial customers receive grants for energy advice from a special fund.

This "Special Fund for Energy Efficiency in SMEs" is a joint initiative of the Federal Ministry of Economics and Technology and KfW. This fund was established to give enterprises a grant to cover up to 80% of the costs for independent and qualified advice on energy efficiency. A two-tier advisory system is used during the consultation to identify weaknesses in a company's energy consumption habits, and to propose specific measures for improvements that can save both energy and costs.



"Round table" and "turn around" advisory services

External advisors help businesses out of their difficult situations by means of a "round table".

KfW offers "round table" advisory services for companies experiencing economic difficulties, in collaboration with the chambers. Analyses by external advisors help the companies to identify their weak points and also offer them suggestions on how to overcome them. The financial participation of the Federal Ministry of Economics and Technology via a special fund to overcome the economic crisis enabled the "round tables" to provide a comprehensive offering.

"Turn around" advisory services were relaunched on 1 May 2009 using funds from ESF as an offer to enterprises with positive prospects of continued business. This offer consists of advice on an enterprise's economic, financial and organisational questions.

Well advised by KfW

A total of more than 31,000 grants were provided in 2009 for utilisation of external advisory services. Around 22,200 of them were given under "Start-up coaching in Germany".

Around 4,700 enterprises received grants from the "Special Fund for Energy Efficiency in SMEs" to help cover the costs of energy efficiency advice.

Approximately 3,200 enterprises used the "round table" last year and around 1,200 the "turn around" advisory service.

31,000



International business – promotion without borders

We finance German and European company projects so that they can compete on global markets. We also support economic and social progress in developing and transition countries in order to improve people's quality of life.



Export and project financing in 2009

Within KfW Bankengruppe, KfW IPEX-Bank is in charge of international export and project financing. It is responsible for providing financing to support the German and European economy, a task derived from the legal mandate assigned to KfW Bankengruppe. Its prime focus is on medium and long-term lending to boost the export economy, develop economic and social infrastructure and support environmental and climate protection projects.



Upper Franconia on track: more environmentally-friendly with each move

KfW IPEX-Bank supports private initiatives in local public transport and contributes to "greener" road and rail systems. A successful move is for example financing 38 diesel railcars for Upper Franconia's regional transport system, which connects the towns of Bayreuth, Weiden, Kulmbach, Hof, Bamberg and others. The system transports around 4 million passengers each year on twelve rail routes spanning a total distance of 429 kilometres. KfW IPEX-Bank structured the total financing for the operating company Benex, financing the new "Regio Shuttle RS1" railcars with EUR 45 million. They were manufactured by the Berlin-based German subsidiary of the Swiss company Stadler Rail – a company with a long tradition. Nord/LB and LfA Förderbank Bayern contributed a further combined total of EUR 33 million, half each. Hannover Mobilien Leasing is involved as the leasing company. A portion is being funded under the KfW "Municipal Investment" programme.

A thirsty desert country: electricity and drinking water for Abu Dhabi

The United Arab Emirates have an abundance of oil but few water reserves. In order to cover the very high water and energy demand in this desert country, a state-of-the-art energy-efficient gas and steam power plant combined with a seawater desalination plant, "Shuweihat 2", is being constructed on the coast of Abu Dhabi. The core of the project are four gas turbines made by Siemens. In a consortium with 14 other banks, KfW IPEX-Bank made loans totalling more than USD 2 billion available, of which it contributed around USD 110 million itself. The project financing with a term of 22 years replaces a bridge loan that KfW IPEX-Bank had made available along with five other banks at short notice in the difficult environment of the financial crisis so that construction of the plant could begin at the end of 2008. The plant can generate 1,500 MW of power and produce more than 450,000 m³ of drinking water per day. It is operated by a joint venture between GDF Suez and Marubeni, which will supply the entire electricity and water production for 25 years to the Abu Dhabi Water and Electricity Company. This project clearly shows that water and energy provision in the Emirates is not built on sand.

Energy from the field: Güstrow Bioenergy Park on stream

The Güstrow Bioenergy Park – currently the largest biogas plant in the world – has been supplying biomethane to the gas pipeline network since June 2009. Biomethane is biogas that has been treated so that it meets the technical standards for natural gas. The plant was designed by NAWARO BioEnergie AG, Leipzig, the market leader in biomethane, with major components built by EnviTec Biogas AG, Lohne. KfW IPEX-Bank is financing just under EUR 80 million, around two thirds of the investment volume, along with the Dutch NIBC Bank and Raiffeisenlandesbank Niederösterreich-Wien. Promotional funding from the KfW "Renewable Energies" programme also contributed to project financing. Around 400,000 tonnes of corn, grain and grass silage are required per year as raw material to operate the plant. These materials are supplied from around 50 farms in the region. Approximately 160 million KWh of electricity and 180 million KWh of usable heat are generated with an annual production of 46 million m³ of biogas – enough, for example, to constantly meet the full energy demand of a town of around 50,000 people in an environmentally-friendly manner.

Forging interests: fully integrated steel plant in India

India also uses technologies from Germany and Europe to drive progress and economic growth. KfW IPEX-Bank has thus financed exports to India for many years – particularly for power plants, renewable energies and steel. In so doing, it has equally supported exports and economic development on the subcontinent. The family-run Indian steel group Bhushan Power & Steel headquartered in New Delhi is a leading producer of steel in India, operating seven production plants at four sites in India. In 2009, Bhushan invested in the expansion of its production capacities in the Indian state of Orissa. Among other things, KfW IPEX-Bank has financed the supply of plant components for a fully integrated steel plant with a volume of EUR 60 million that has Hermes coverage. Exporters include SMS Siemag, a leader in the construction of metallurgic plants and rolling mill technology, as well as Siemens and Linde.



Offshore electricity: a wind farm that guards the coast

To haul ashore big contracts you have to pitch out to sea. At any rate, this was how the London branch office of KfW IPEX-Bank GmbH as a member of an international banking consortium received the mandate for structuring and financing the two Centrica wind farms "Glens of Foudland" and "Lynn and Inner Dowsing". The latter is the second offshore wind farm financing concluded by KfW IPEX-Bank. The last offshore turbines went into operation in March 2009. Construction was complete in just 18 months. A successful project, of which site manager Jan Korff Petersen and his colleague Bent Vesterdal of Siemens Wind Power A/S can be proud. The onshore wind farm "Glens of Foudland" has already been successfully feeding clean wind energy into the power grid since 2006.



Siemens supplied 54 wind turbines for the offshore wind farm "Lynn and Inner Dowsing" in England. Twenty turbines were supplied to the onshore wind farm "Glens of Foudland" in Scotland. Moreover, Siemens is not only the turbine supplier but also responsible for all maintenance during the first five years.

The loan with a term of 15 years totals GBP 375 million. The project's technical dimensions are also impressive –

the rotor diameter of 107 metres is equivalent to the length of an entire football field. A tower 80 metres high is necessary so that the wind can move the 95-tonne rotor. A total of 74 wind turbines convert the rotating mass of air into usable energy, generating a maximum of 220 MW of electricity. This is enough to supply 143,000 households with energy. And it is just as clean as the sea air itself.



A major project that allows an entire region to soar

A city takes off. The expansion of the existing Schönefeld airport into Berlin Brandenburg International BBI is a success story for the German economy. The project's dimensions are huge. The construction site is the size of 2,000 football fields, on which as many as 3,000 construction staff work each day. More than 300 companies from the region are participating in this gigantic infrastructure project, which comprises a total investment volume of around EUR 2.5 billion. As a result of improved site quality and additional purchasing



power effects, a total employment impact of 73,000 jobs has been created for the region. The banking syndicate with substantial participation by KfW IPEX-Bank made a fundamental contribution to this project with long-term financing of EUR 1.4 billion.

The two Managing Directors Prof. Dr Rainer Schwarz and Dipl.-Ing. Manfred Körtgen also gave special priority to energy-efficient operation of the airport. The design features regenerative energy systems as well as highly innovative heat recovery systems, thus reducing CO₂

emissions by 48%. By the end of 2011, BBI will begin to operate with a capacity for handling up to 27 million passengers. The airport is also suitable for modular expansion to accommodate up to 45 million passengers. By ensuring that the location is equipped with sufficient capacity to handle increased flight volume, Berlin has a valuable advantage over other European airports. The capital city is meeting the challenges of the future with this project, and is on the way to becoming the East-West hub of the continent.



KfW export financing – a focus with tradition

Promoting the German export industry has been part of KfW's legal mandate since 1950. At the beginning of the 1960s, export promotion became export financing, which increasingly began to use not only public funds but also market funds at commercial loan conditions. Over the years, this export financing developed into international export and project financing that today offers a wide range of financing products in the interests of the German and European economy.

KfW IPEX-Bank has continued this tradition as a legally independent subsidiary of KfW since the beginning of 2008. It considers itself an integral part of KfW Bankengruppe and remains committed to KfW's legal mandate. It generates substantial income for KfW and makes a key contribution to the transfer of expertise between KfW's individual business areas.

Export and project financing in an extremely difficult environment

The demand for financing was subdued in 2009 as a result of companies' hesitant investment propensity.

The market for international export and project financing proved to be extremely difficult in 2009. Demand for financing slowed from the end of 2008 as a result of companies' cautious investment behaviour. The financing offering on the banking market was also subject to restrictions. As a result of the financial and real economic crisis, the average credit quality of all credit banks' portfolios deteriorated. Hence, banks require more equity to back

their portfolios and must correspondingly exercise more caution in managing new business. This resulted in competition for well collateralized financing structures. Only a few banks were available for syndicated financing of medium and long-term projects. The international syndication market for transferring credit risks between banks came to a near standstill, rendering the situation more difficult.

Business performance of KfW IPEX-Bank

KfW IPEX-Bank recorded a considerable volume of new business in 2009, EUR 8.9 billion, despite unfavourable market conditions.

Especially considering the impacts of the financial and economic crisis, KfW IPEX-Bank considers 2009 to have been a positive year. Despite extremely unfavourable general global economic conditions, the bank remained a reliable financing partner to the German and European economy. At EUR 8.9 billion, it achieved a considerable volume of new business. Although this is a significant decline compared to 2008, which was an exceptional year, the decline was expected due to market circumstances as demand for loans had already significantly weakened during the second half of 2008.

Moreover, during the course of 2009, KfW IPEX-Bank paid special attention to its existing clients to help solve any financial problems that arose.

With new commitments amounting to EUR 8.9 billion (2008: EUR 17.6 billion) and the support for its existing clients experiencing financial problems, KfW IPEX-Bank promoted the German economy on two fronts – in accordance with KfW's legal mandate.

Expertise based on experience – a presence in all important markets and regions

KfW IPEX-Bank is one of the leading providers of international export and project finance. It supports internationalisation and maintenance of competitiveness of the German and European economy by providing customised financing. It operates around the globe – also in countries whose own economic strength is not sufficiently developed and also in difficult times.

KfW IPEX-Bank – leading provider of customised financing for the German and European economy.

KfW IPEX-Bank has proven expertise in the market and in different industry sectors, including basic and commodities industries, the manufacturing industry, retail and health, the energy and water industry, the environmental sector, telecommunications and other media. In the area of transport and infrastructure, its expertise is focused on shipping and aviation, rail and road transport, sea ports, airports, and the construction industry. In 2009, particularly the business sectors of

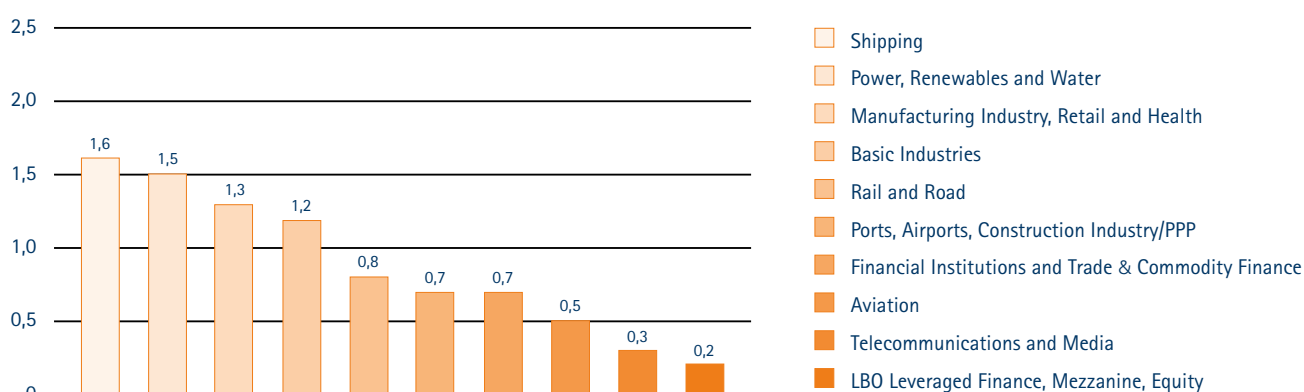
shipping, energy and environment, manufacturing, retail and health and basic industries made particularly sizeable contributions to the bank's overall financing volume.

The high new business volume in the shipping business sector largely consists of maritime energy financings. This covers offshore oil and gas production plants as well as feeder vessels for such plants. The remaining submarkets of maritime shipping played a lesser role in 2009. In this area primarily deals initiated in 2008 were concluded to enable ship deliveries from German shipyards, which are all backed by valuable collateral.

In the energy and environment sector, KfW IPEX-Bank provided a considerable amount of financings for renewable energies and measures to increase energy efficiency.

New commitments by business sector

EUR in billions



Differences in the totals are due to rounding.

The corporate policy objective of KfW IPEX-Bank is to support the German and European economy in the ongoing internationalisation process. The bank operates around the globe in pursuing this task. In 2009,

the regional focus of new commitments was EUR 3.0 billion in Germany and EUR 3.6 billion in Europe. New commitments in regions outside of Europe amounted to EUR 2.3 billion.

"KfW IPEX-Bank considers itself a customer-focused relationship bank".

Customer-focused product policy

KfW IPEX-Bank considers itself a customer-focused relationship bank. Medium and long-term loans for specific purposes are its core business. It also has a product range that is required to support the international business of its customers.

The bank is increasingly focusing on small and medium-sized exporters for long-term financing.

KfW IPEX-Bank aims to increasingly provide long-term financing for small and medium-sized exporters as well. There is already a stable financing offer for large-volume export projects; however for smaller export projects there were no sustainable financing opportunities until now. KfW IPEX-Bank has thus made an intensive effort to find commercially viable solutions for financing medium-sized businesses. These attempts were successful in the collaboration with Northstar

Trade Finance, which is already successfully established in key export markets. Via its subsidiary Northstar Europe, it has assumed individual financings of European export projects for KfW IPEX-Bank ranging from EUR 0.5 to EUR 5 million, and with terms of up to five years. Through the streamlined structure of this special provider and efficient processes that are precisely tailored to this financing market, smaller export projects are also economically feasible. However, a prerequisite is for these projects to have export credit insurance coverage. Especially in the crisis, the financing offering for smaller export projects can prove to be a sales argument for German and European exporters that is not to be underestimated.

Regional presence on clients' target markets

With a network of foreign representative offices, KfW IPEX-Bank is close to its customers.

KfW IPEX-Bank is active in all the important export industry regions. Its presence on regional markets makes a major contribution to business success. For this reason, KfW IPEX-Bank has established a network of foreign representative offices in key regional financial centres over recent years. This network serves to acquire new projects as well as support existing ones.

In 2009, the network was expanded to include an office in Abu Dhabi. The Gulf region offers sales markets, especially in plant construction, that have traditionally been important to the German economy.

KfW IPEX-Bank has thus put itself in a position to further invest in the Gulf region's already favourable business relationships.

The London representative office was converted into a branch office in 2008 and began its lending business in 2009. From London, KfW IPEX-Bank supports German providers in positioning themselves on important sales markets in the UK. In the year under review, financing was granted in particular to renewable energies offshore wind projects and modern waste disposal plants.

KfW IPEX-Bank abroad

As at 31 December 2009



■ Branch office □ Representative office □ KfW representative office that is being transferred to KfW IPEX-Bank

Safeguarding the portfolio in the interests of the bank and customers

Sound knowledge of sectors and customers reduces credit risk. Due to its core activity of granting medium and long-term loans, KfW IPEX-Bank's economic success is naturally influenced by the credit cycle and is threatened multiple times by credit default during an economic downturn. However, its sector expertise is its strength. KfW IPEX-Bank knows its customers and the sectors in which it is active. This does not fully prevent losses but does reduce their number and extent. With its active support in difficult situations, the bank also contributes to securing its customers' businesses and jobs.

made by German companies abroad. Particularly given the current critical situation in the credit cycle, which demands increased attention to the existing loan portfolio, the partial restructuring of the organisation undertaken in 2009 has proven successful and has resulted in considerably stronger risk management and stronger bundling of customer responsibility in the front-office departments.

With a balanced distribution among its total of ten business sectors, the KfW IPEX-Bank's loan portfolio is broadly diversified across the most important German industries. It derives its quality from a combination of solid corporate credit ratings, valuable collateral and state guarantees for export financing, as well as for the financing of direct investments

Environmental and social responsibility

KfW IPEX-Bank acknowledges its responsibility to provide financing exclusively for environmental and socially acceptable projects. It has had its own demanding environmental and social policy in place since 2000, with clear rules for operating business, which has been adapted on multiple occasions to reflect current developments in the international discussion on corporate social responsibility. In 2008, KfW IPEX-Bank also adopted the "Equator Principles", which have now been adopted by more than 80 banks worldwide. These banks are officially known as the

"Equator Principles Financial Institutions" (EPFI) and are continuously engaged in a stimulating dialogue on best practices in evaluating environmental and social risks in financing their projects. KfW IPEX-Bank actively participates in the activities of this community of learning.

The ABC of sustainability

Loan applications in categories A and B are examined in detail by KfW experts.

All loan applications are assigned to one of three environmental and social categories. Categories A and B are for projects that are likely to have considerable environmental and social impacts. However, as it is often possible to technically control these projects, they are more thoroughly appraised by KfW experts. Projects to be implemented in an EU country or another OECD country with established environmental practice and a stable social structure constitute an exception.

KfW IPEX-Bank only grants financing for the projects appraised if the IFC's internationally accepted environ-

mental and social standards have been adhered to. Additional requirements are negotiated with the entities implementing the projects if necessary. In the reporting year, these were mainly raw materials projects and thermal power plants. 11 projects were allocated to category A and 13 to category B. A further 38 projects were allocated to category C, which does not require special assessment. These were primarily projects involving aircraft, ships, telecommunication systems and capital goods, which all meet German or European Union standards.

Environmental protection also in export and project finance

The bank is especially committed to projects which are environmentally sound or which promote environmental protection. These project categories accounted for more than EUR 1 billion of the loans granted in the year under review. These financings

focused on investments in regenerative and thermal energy technologies that serve to improve energy efficiency. The remainder of the financings were granted for investments in rail transport.

Economic and financial results for 2009

The Export and project finance business area, which KfW IPEX-Bank is responsible for, recorded a lower lending volume as at 31 December 2009 than in the previous year. This is largely due to the fact that compared to 2008 there was a lower new commitment volume as a result of the economic crisis. The business area's 2009 operating result was satisfactory; net interest and net commission income as well as

the operating result were significantly higher than those of 2008. The current economic crisis and the worsening of many counterparty and country risks requires considerably higher risk provisioning than the year before. However, the Export and project financing business area did make a moderate contribution to income.

The balance-sheet loss of EUR 85 million recorded by the legally independent KfW IPEX-Bank GmbH, whose accounts are balanced separately and which conducts the market transactions in the area of Export and project finance, is offset by the positive effects of the KfW Group income statement. These are primarily the

interest and commission income on the transactions executed for KfW on a trust basis, along with the funding spread. This is the amount that KfW IPEX-Bank GmbH pays KfW, from which it obtains funding in line with market conditions.

The volume of lending for the Export and project finance business area amounted to EUR 63.8 billion as at 31 December 2009 (2008: EUR 67.9 billion). Net interest income and net commission income amounted to EUR 711 million and the operating result before valuation was EUR 575 million. Income from ordinary activities from the business area before income tax was positive, despite high risk provisioning due to the crisis, at EUR 23 million.

Outlook 2010: Supporting the economy in a persistently difficult environment

Demand for financing will initially remain subdued in 2010.

The global period of economic weakness will also continue in 2010. KfW IPEX-Bank expects its clients to continue to be selective in beginning investment and infrastructural projects. To this extent, the subdued demand for financing that has been observed since the end of 2008 will persist.

Commercial banks' offerings will also remain limited as the risk attached to the loan portfolios remains high due to the crisis. Thus, commercial banks face higher capital requirements in the overall loan portfolio for 2010 as well. Consequently, fewer banks will be available as co-financers or syndicate partners for

larger medium and long-term financing projects than before the financial market crisis.

Particularly in this environment, KfW IPEX-Bank remains committed to KfW's legal mandate, i.e. to provide medium and long-term financing in the interests of the German and European economy. Taking the above general conditions into account, it will continue to focus on suitably collateralised financing structures in its new business. It expects new business volume of approximately EUR 8 billion, which is comparable to the previous year's volume.



Promotion of developing and transition countries in 2009

KfW Entwicklungsbank and DEG are committed to promoting progress in developing and transition countries. They support the establishment of social and economic infrastructure, environmental and climate protection as well as private economic initiatives and investments as a driver of development. This improves the living conditions for the people in these countries and provides an impetus for sustainable development. KfW supplements the funding provided by the Federal Government on a significant scale, thereby actively helping the Government to meet its development policy targets.



Gaining ground: EUR 100 million for African agriculture

With the aim of further developing the agricultural sector in southern Africa and of increasing the supply of food, DEG entered into a strategic partnership with Standard Chartered Bank, a leading provider of agricultural finance. "AgroAfrica" with a planned volume of EUR 100 million is DEG's first major co-financing programme with a commercial bank. The first joint project offers package solutions for farmers; in addition to prefinancing and insuring crops, farmers can receive agricultural advice on how to optimise crop growth. DEG enabled the programme to be considerably expanded by means of a guarantee.

International climate financing: KfW is a trailblazer for climate protection and adaptation

In 2009, KfW Entwicklungsbank advanced its climate protection activities in cooperation with the Federal Government, and is now a trailblazer when it comes to innovative funding instruments in this sector. To this end, it launched the "Global Climate Partnership Fund" to mobilise additional private sector funds. It also continued promotion of the "International Climate Initiative" and the "Initiative for Climate and Environmental Protection". KfW applied improved standards for calculating climate effects in implementing credit lines for energy efficiency and renewable energy. It has charted new courses with partner-focused adaptation programmes in north-eastern India. For example, together with Indian scientists it identifies sectors, which react to climate change in a particularly sensitive manner. KfW also acted in advance of the Copenhagen climate conference by advising the German Government on international climate financing matters. In total, KfW committed approximately EUR 1.6 billion, or around 42% of its promotional business volume in 2009 to environment and climate.

Reliable partner to companies – also in times of crisis

With almost 50 years of experience as a promoter of entrepreneurial development, DEG is familiar with crises. However, the global financial and economic crisis also presented it with new

challenges. It thus strengthened its commitment to existing clients and used its international network to free up credit bottlenecks. For example, it participated in "Infrastructure Crisis Facility" of IFC, the World Bank subsidiary. This facility provides private enterprises with capital for infrastructure projects. DEG plans to contribute USD 400 million for this purpose. The economic crisis was also the topic of an international DEG seminar where 120 participants from 40 countries discussed the impacts on enterprises in developing countries and the particular role that development financiers play.

Promoting SMEs: crucial to development

DEG has a tradition of committing to SMEs. It grants them long-term funding at market-based conditions and advises them on planning and implementing their investments. To this end, it also promotes German SMEs that invest in developing countries – in 2009, for example, in Egypt, Mexico, Namibia, Oman and Vietnam. SMEs in developing regions still have little access to investment capital. DEG thus further extended its commitment, launching the "SME growth initiative" in 2009 to close the gap in SME financings in partner countries. DEG plans to achieve a volume of approximately EUR 1 billion in three years.

Still high on the agenda: the KfW Carbon Fund

The KfW Carbon Fund has been part of KfW Entwicklungsbank since 2009. This underscores its promotional mandate for climate protection and adaptation. The fund acquired just under 8 million carbon credits from 24 climate protection projects in twelve countries in 2009. This enabled the purchase programme jointly launched with the European Investment Bank (EIB) to be fully utilised for projects. Buyers are European enterprises that use them to fulfil their obligations under the European Emissions Trading Scheme (EU-ETS). An agreement was reached with the EIB to maintain a follow-on programme of EUR 100 million, which is aimed in particular at acquiring credits from poorer countries and innovative programme approaches. It also addresses EU requirements for the third phase of the EU-ETS by 2020. With the "Post 2012 Carbon Fund", the EIB and KfW are thus setting a further standard in a difficult market environment characterised by uncertainties even after the Copenhagen climate conference.



People joining
forces to stave
off drought

Without water, the whole food provision system ends up high and dry. Average annual precipitation in Burkina Faso is more than 800 millimetres; however the constant alternation between drought and flood is causing the farmers enormous problems. Increasing population growth, moreover, is forcing people to farm land at higher altitudes, which in turn accelerates soil erosion. The valleys, in contrast, are hardly used for agricultural purposes as water collects in the floodplains during the rainy season and evaporates or drains very quickly, which is the reason that every second harvest was lost in the past.

KfW Entwicklungsbank promotes the use of these floodplains for agricultural purposes. In close collaboration with village communities, basic, low-maintenance systems are being created to manage water resources. The water level is regulated with stone walls and metal gates. This system enables crops to be increased four- to fivefold. The agricultural consultants advising the project executing agency drive to the villages and explain the application procedure, select the locations and negotiate with village residents the labour they are to provide themselves.

Total costs of EUR 11.16 million include Burkina Faso's own contribution of EUR 1.36 million. Financial Cooperation funds add up to EUR 9.8 million. These measures are noticeably improving the living conditions of 45,000 people since in agriculture more than anywhere else, water is the basis for healthy growth.





How water pipelines
keep peace efforts afloat



The consequences of past wars are evident all over Afghanistan. Yet the bombed-out houses, bumpy roads and broken power cables are not the only reminders of the heavy battles fought in the country. Often it is the lack of simple things that make daily life just as difficult as visible damages of war. Take water, for example. Most Afghans can only dream of a regular water supply. Fewer than one in five people there are connected to a central drinking water system. The greater majority of Afghans rely on salty, bacteria-ridden flat wells that all too often dry up to cover their daily water needs.

For this reason, KfW Entwicklungsbank has supported the Afghan people in improving the country's water supply since the fall of the Taliban regime. The project initially focused on getting existing pipelines, reservoirs and wells back into working order. This part of the programme was successfully concluded. The programme is now focusing on development of new supply systems. In the capital city Kabul alone, half of the 3 million residents will be provided access to clean water with German assistance. KfW has already financed investments in the water sector with EUR 34 million. Every metre of water pipe that provides clean drinking water brings normality that much closer to the daily life of the population.



KfW Entwicklungsbank – creating better living conditions

KfW Entwicklungsbank carries out Germany's Financial Cooperation (FC) on behalf of the Federal Government. In this way, it contributes not only to reducing poverty but also to shaping globalisation fairly as well as to protecting the environment and thus ensuring peace. The goals of Financial Cooperation are ultimately to permanently improve the living conditions of the world's poorest people.

KfW Entwicklungsbank supports the Federal Government in its obligation to realise the UN Millennium Goals.

In so doing, KfW Entwicklungsbank abides by the guidelines of the Federal Government, which has committed itself at international level to realise the UN Millennium Development Goals. It gears its work to the requirements of the partner countries and their development strategies. KfW Entwicklungsbank finances, advises and supports projects worldwide.

Its efforts are geared towards strengthening its partners' initiative, accountability and capacities. A partner country institution is thus always responsible for planning and realising a project. In most cases, these are government institutions but sometimes they are private companies or non-governmental organisations. KfW naturally assumes co-responsibility for a project's progress. It supports its partners from beginning to end. Through an intensive exchange, KfW Entwicklungsbank strengthens the executing agency's capacities and competencies, collaborating with it to develop solutions. Along the way it has acquired decades of experience, which means that as an advisor it is in

high demand by local partners, other development organisations and not least the Federal Government.

It is also on hand to offer advice and practical help in eliminating structural obstacles. Thus it creates a favourable framework for development and applies principles of good governance. Being involved in the strategic concepts of the German Federal Ministry for Economic Cooperation and Development (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – BMZ*), KfW Entwicklungsbank closely coordinates its work with the activities of other development organisations, both German and international. This involvement ensures that the promotional funds are duly and effectively utilised for the purpose intended. However, the results are the main yardstick for measuring the value of its work. It examines with a critical eye what it has accomplished in specific and sustainable terms to bring noticeable, long-lasting improvement to people's lives.

Consequences of the crisis

The global financial system was the first to be shaken by the crisis, then industry and trade came under economic pressure.

The economic and financial crisis has taken its toll on many developing countries. They continue to combat fluctuating commodity prices, weak financial markets and lower growth prospects. There are great disparities from region to region. The crisis hit in two waves. Firstly, the global financial system was shaken. Thereafter, industry and trade experienced economic difficulties in a second wave. Depending on their degree of integration and economic focus, developing countries suffered quite different effects from the turmoil. Whilst some emerging countries have since returned to considerable rates of growth, the poorer countries, particularly export countries, felt the drop in demand in major economies. Not least the decline in demand for commodities was a problem for many developing countries. From mid-2008 to mid-2009, prices for commodities including internationally traded foodstuffs fell by around one third. This resulted in meas-

ures ranging from production reductions to commodity plant shutdowns.

Low-income countries have also been hit by the crisis, as they have a weak economic basis and extremely little financial flexibility. The poor people in these countries feel the low economic momentum particularly strongly. Public development cooperation serves as a stabilising element in the midst of this difficult situation, cushioning the negative effects of the crisis. For this reason, a high priority for KfW Entwicklungsbank in 2009 was maintaining the same level of support as the previous years, focusing on investments in the water sector, the financial sector as well as climate and environmental protection. However, other areas such as education, health, the fight against HIV/AIDS and the development of peace also played an important role.



The total volume of KfW Entwicklungsbank's promotional support in 2009 amounted to EUR 3.5 billion.

KfW Entwicklungsbank – the services it provides

KfW Entwicklungsbank is present in more than 62 locations around the world.

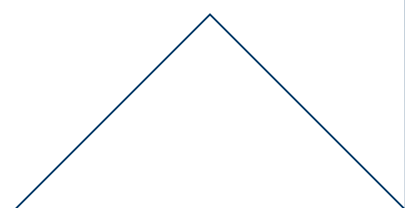
As a member of KfW Bankengruppe, KfW Entwicklungsbank benefits from synergy effects in many respects. It operates its promotional lending business from its head office in Frankfurt, from Berlin, Bonn and Brussels as well as from a total of 62 further locations across the globe. These include Dhaka in Bangladesh, Hanoi in Vietnam and Baku in Azerbaijan, but also Addis Ababa in Ethiopia, Cotonou in Benin, Maputo in Mozambique as well as Lima in Peru and Tegucigalpa in Honduras.

The necessary funding for its activities is provided largely by the BMZ. However, the importance of cooperation with developing and emerging market countries is also increasing in other departments of the Federal Government. These include the Federal Foreign Office (*Auswärtiges Amt*) with measures to safeguard peace and prevent and resolve crises, and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (*Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit – BMU*) with important climate protection projects.

KfW Entwicklungsbank supplements government funds to a large extent through own funds that it raises on the capital market. The additional KfW funds give the bank a leverage effect with which it can multiply the promotional amounts. It thus supports the Federal Government in fulfilling its Official Development Assistance quota. In this way, KfW greatly expands the financing volume and the wide-

spread impact of cooperation with developing and emerging market countries. More than one in two promotional euros now comes from KfW's own funds.

KfW finances and accompanies programmes and projects as development advisor with a needs-based combination of grants, low-interest credit, loans and/or equity investments. The conditions of the funding depend on the type of project, the economic situation of the partner country in question, the state of development, the country's ability to participate in foreign trade and the level of government debt. KfW offers customised financing on this basis. Countries with weak development receive money that does not have to be repaid. However, countries with greater economic strength may also receive grants for special projects. This primarily applies to projects that serve to protect the environment or directly combat poverty. Apart from these exceptions, partner countries whose development is more advanced and which are no longer reliant on grants, have access to a broad range of low-interest financing alternatives. In addition to standard loans these alternatives also include development and promotional loans at close to market conditions. By using its own funding, KfW gives the Federal Government the necessary freedom to distribute scarce grants to an even greater extent to particularly poor regions. This applies above all to Sub-Saharan Africa, which received the largest share of federal funding in 2009 of any region.



Commitments and delegated funds of KfW Entwicklungsbank in 2005–2009

	2009	2008	2007	2006	2005
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
KfW Entwicklungsbank					
FC grants ¹⁾	1,112	882	803	864	751
FC standard loans	230	351	277	280	307
FC development loans	878	1,033	579	704	492
<i>Budget funds</i>	106	213	130	198	157
<i>KfW funds</i>	772	821	448	507	336
FC promotional loans	1,151	1,314	1,263	512	247
Delegated funds ²⁾	111	68	80	85	84
Total FC	3,482	3,648	3,002	2,445	1,881
Memo item: interest grants	100	90	37	38	19

Differences in the totals are due to rounding.

¹⁾ Differences compared with previous years due to interest grant adjustments

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

Funding commitments at record level once again

KfW Entwicklungsbank's financing commitments in 2009 remained close to the commitment level of the previous year. Grants to the world's poorest countries, which come solely from German Government budget funds, increased in particular. Promotional loans to

countries already more developed stood at a similarly high level. The own funds that KfW employed in this area once again constituted more than half the total promotional volume.

Commitments totalled some EUR 3.5 billion. Grants to the poorest countries rose to more than EUR 1.1 billion. Sub-Saharan Africa received by far the largest share of federal budget funds in 2009, in the amount of EUR 558 million (2008: EUR 385 million) or 39% of all budget funds. Promotional loans for the better performing countries totalled around EUR 1.2 billion. KfW's own funds amounted to EUR 1.9 billion, constituting 55% of the total promotional volume.

Commitments by region

The largest share of budget funds was allocated to Sub-Saharan Africa in 2009. KfW addressed the fact that the Federal Government intends to strengthen its aid to Africa according to a resolution of the G8 summit in Heiligendamm. Other regions receiving funding albeit to a somewhat lesser extent were Asia and Oceania, North Africa and the Middle East, followed by Europe, the Caucasus, and Latin America. Measured in terms of total commitments, the region of Asia and Oceania was the largest recipient. The reason for this

lies in the region's relevance in terms of climate and the related environmental projects. The Europe and Caucasus region received the second highest volume of total commitments, which nonetheless comprised only a small share of federal funding. The leverage effect for the Federal Government resulting from KfW's use of own funds enabled the grants to be focused even more strongly on the countries most in need. Sub-Saharan Africa came in third ahead of Latin America, North Africa and the Middle East.

KfW Entwicklungsbank commitments by region in 2009

	Budget funds		Overall commitments	
	EUR in millions	%	EUR in millions	%
Sub-Saharan Africa	558	39	669	18
Asia and Oceania	315	22	1,249	34
North Africa and the Middle East	257	18	354	10
Europe and Caucasus	230	16	831	24
Latin America	88	6	380	10
Total	1,448	100	3,482	100

Differences in the totals are due to rounding.

Commitments by priority sector

In addition to the promotional focus on the financial sector, priority was also given to social and economic infrastructure.

The financial sector has received particularly intensive support from KfW for many years because it is key to economic and social development. It also remained the commitment priority in 2009, with the areas of social and economic infrastructure next in line. Social infrastructure largely concerned projects in the water sector, health, family planning as well as projects targeting HIV/AIDS prevention and the build-up of state structures. The commitment to economic infrastructure primarily related to the energy and transport sector, giving priority to promotional measures relevant to climate protection. These focal

sectors were followed at a considerable distance by the production sector and other projects including measures safeguarding food supply.

Furthermore, the projects supported in 2009 made an important contribution to achieving the objectives of German Development Cooperation. For example, over half of the projects helped to fight poverty and promote equal opportunities for men and women. Just under 10% of commitments promoted measures in good governance – a proportion which has continuously increased in the last few years.

Disbursements by KfW Entwicklungsbank

KfW Entwicklungsbank disbursed EUR 2.7 billion for projects and programmes in developing and transition countries in 2009. Of this sum, EUR 1.3 billion came from federal budget funds. Thus the disbursements were at the previous year's level.

Commitments by priority sector in 2008/2009

	2009		2008	
	EUR in millions	%	EUR in millions	%
Financial sector	1,089	31	1,359	37
Social infrastructure	1,003	27	973	26
Economic infrastructure	889	24	966	26
Production sector	148	4	62	2
Other	352	9	289	8
Total	3,482	100	3,648	100

Differences in the totals are due to rounding.

Debt restructuring, cancellation and conversion

Under certain conditions, the Federal Government grants highly indebted partner countries relief on the repayment of loans. The foundation for this is provided by an arrangement with the international donor community in the Paris Club. This initiative receives assistance from the International Monetary Fund (IMF). KfW participates in the negotiations on the German side.

In assisting with debt relief of partner countries, KfW restructured EUR 9.6 million worth of debt for the Republic of Congo in 2009 within the framework of the "Heavily Indebted Poor Countries Initiative" (HIPC).

Debt conversions enable repayments for cancelled debt to flow into projects and programmes pertaining to development.

In debt conversion, debtor countries are excused from repayment if the money saved in this way is used to reduce poverty, for environmental protection, for education, or in the fight against HIV/AIDS, and provided that such projects are actually implemented. KfW Entwicklungsbank concluded new debt conversion agreements totalling EUR 87 million with Egypt,

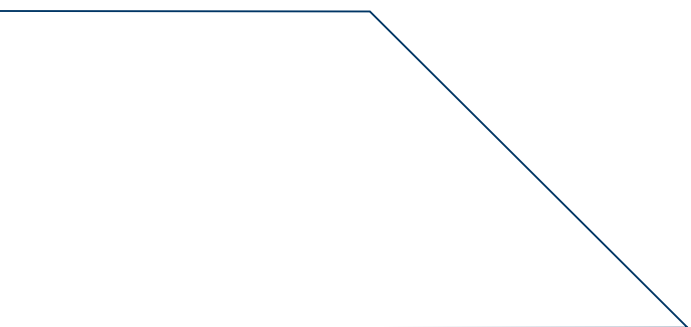
Bosnia and Herzegovina, the Dominican Republic, El Salvador, Peru, Syria and Tonga in 2009. Additionally, Germany was able, also on the basis of various different agreements from previous years, to cancel debt of around EUR 63 million after these countries had implemented corresponding projects.

Achieving more together

KfW Entwicklungsbank will campaign in Germany and at an international level for efficient coordination of development work among donor countries.

In view of the global challenges the world community has to address, it is now more important than ever to bundle and coordinate the activities of multiple development organisations and donors. KfW Entwicklungsbank will continue to actively campaign within German and international development cooperation for efficient coordination of its efforts with other donor institutions. The "Mutual Reliance Initiative" jointly launched in 2009 with the French Agence

Française de Développement (AFD) and the EIB is an important step in this direction. Beginning with mutual recognition of one another's processes through to transferring responsibility for implementing jointly financed projects, all three institutions want to create a model for efficient division of labour, thus setting an example for other international development financiers.



Commitment volume by country in 2009

Ranked by BMZ budget funds

Rank	Country	BMZ budget funds	KfW funds	Other budget funds/funds of other donors	Total
		EUR in millions	EUR in millions	EUR in millions	EUR in millions
1	Palestinian Territories	82.00	0.00	0.00	82.00
2	Syria	55.20	0.00	0.00	55.20
3	India	54.97	283.50	0.20 ¹⁾	338.67
4	Benin	52.00	0.00	0.00	52.00
5	Mali	50.50	0.00	0.00	50.50
6	Rwanda	47.92	0.00	1.80 ²⁾	49.72
7	Afghanistan	46.00	0.00	59.95 ²⁾	105.95
8	Zambia	45.35	0.00	0.00	45.35
9	Tanzania	42.00	0.00	0.00	42.00
10	Pakistan	40.38	0.00	3.60 ²⁾	43.98
11	PR of China	39.99	514.21	0.00	554.20
12	Egypt	37.06	24.06	0.18 ²⁾	61.31
13	Ukraine	35.00	0.00	5.42 ¹⁾	40.42
14	Ecuador	30.50	0.00	0.00	30.50
15	Liberia	30.00	0.00	0.00	30.00
16	Uganda	30.00	0.00	0.00	30.00
17	Burkina Faso	27.84	0.00	0.00	27.84
18	Kenya	27.00	0.00	0.00	27.00
19	Togo	25.00	0.00	0.00	25.00
20	Bangladesh	23.00	0.00	0.00	23.00
21	Yemen	23.00	0.00	0.00	23.00
22	Indonesia	22.50	13.00	8.45 ¹⁾	43.95
23	Cameroon	22.50	0.00	0.00	22.50
24	Bosnia and Herzegovina	21.50	10.00	2.70 ^{1),2)}	34.20
25	DR Congo	20.50	0.21	1.50 ¹⁾	22.21
26	Uzbekistan	18.80	0.00	0.00	18.80
27	Philippines	17.40	0.00	0.50 ¹⁾	17.90
28	Jordan	17.24	24.50	0.00	41.74
29	Republic of Kosovo	16.50	32.00	0.00	48.50
30	Tunisia	16.22	48.72	0.00	64.93
31	Malawi	15.50	0.00	0.00	15.50
32	Ethiopia	15.00	0.00	0.00	15.00
33	Honduras	15.00	0.00	0.00	15.00
34	Ghana	14.90	0.00	0.00	14.90
35	Serbia	14.85	62.00	3.60 ^{1),2)}	80.45

cont.

Rank	Country	BMZ budget funds	KfW funds	Other budget funds/funds of other donors	Total
		EUR in millions	EUR in millions	EUR in millions	EUR in millions
36	Azerbaijan	11.93	0.00	0.20 ¹⁾	12.13
37	South Africa	11.40	34.80	0.00	46.20
38	Tajikistan	11.00	1.00	0.00	12.00
39	Côte d'Ivoire	11.00	0.00	0.00	11.00
40	Macedonia	10.70	0.00	0.00	10.70
41	Lebanon	10.00	0.00	0.00	10.00
42	Brazil	8.00	100.33	6.50 ¹⁾	114.83
43	Niger	7.96	0.00	0.00	7.96
44	Cambodia	7.50	0.00	0.00	7.50
45	Armenia	7.30	57.30	0.00	64.60
46	Nicaragua	6.50	0.00	0.00	6.50
47	Senegal	6.45	0.00	0.00	6.45
48	Namibia	5.10	0.00	0.00	5.10
49	Guyana	5.00	0.00	0.00	5.00
50	Chad	5.00	0.00	0.00	5.00
51	Mongolia	4.80	0.00	0.00	4.80
52	Mexico	4.09	7.16	0.00	11.25
53	Haiti	4.00	0.00	0.00	4.00
54	Burundi	3.86	0.00	0.00	3.86
55	Colombia	3.50	0.00	0.00	3.50
56	Mozambique	3.00	0.00	0.00	3.00
57	Vietnam	2.50	23.46	0.00	25.96
58	Montenegro	2.00	56.00	0.00	58.00
59	East Timor	2.00	0.00	0.00	2.00
60	Sri Lanka	1.97	0.00	0.00	1.97
61	Croatia	1.50	0.48	0.60 ¹⁾	2.58
62	Albania	0.80	0.00	0.00	0.80
63	Nigeria	0.67	0.59	0.00	1.26
64	Morocco	0.30	0.00	0.00	0.30
65	Chile	0.00	34.86	0.00	34.86
66	Peru	0.00	29.04	3.00 ¹⁾	32.04
67	El Salvador	0.00	25.22	0.00	25.22
68	Turkey	0.00	0.00	20.00 ²⁾	20.00
69	Sudan	0.00	0.00	2.12 ²⁾	2.12
	Supranational	141.88	451.98	42.88 ^{1),2)}	636.74
	Other	0.00	88.73	0.96 ¹⁾	89.69
Total		1,394.83³⁾	1,923.14	164.15	3,482.13

Memo item: Interest grants of EUR 100 million (BMZ: EUR 98 million, BMU: EUR 2 million)

Differences in the totals are due to rounding.

¹⁾ Funds of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)²⁾ Funds of other donors (incl. other budget funds)³⁾ Deviation from total federal budget funds, as only BMZ funds

Promotional funds helping Latin America's agricultural sector to bloom again

Sustainable investments ensure healthy economic growth. This is the case in the agricultural sector more than almost any other. As this represents a significant economic sector especially in Latin America, the Latin American Agribusiness Development Corporation S.A. promotes small and medium-sized agricultural enterprises. The LAAD now grants loans to SMEs in 16 countries and supports management of agricultural businesses with its own regional offices.





Enterprises such as Florecot benefit from this support. As one of the largest sunflower exporters in Ecuador, the business availed itself of LAAD loans and successfully invested in long-term growth. The business, which covered four hectares and had a staff of 12 in 1994 now manages around 47 hectares and is staffed by over 700 employees. Florecot offers them very good working conditions and additional benefits such as health insurance, meals while at work and further training.

DEG has been promoting the LAAD since 2001 to further strengthen the healthy development of such businesses in the Latin American agricultural sector. It provided long-term loans totalling USD 40 million to the Agrarbank along with other development financiers. In 2006, DEG assumed 8.3% of LAAD shares with voting rights. And during the global financial crisis, it granted the company an additional loan of USD 15 million in 2009, enabling more Latin Americans to reap the fruits of their labour in the future.





A geothermal power plant lays the groundwork for clean energy

Climate-friendly energy supply constitutes one of the main challenges facing the international community. It is by no means only leading industrialised countries that are setting a good example with renewable energies. The Olkaria III geothermal power plant in Kenya proves that developing countries, too, are willing and able to contribute to global environmental protection by generating clean energy.



The Orpower company has been successfully operating a geothermal plant in Kenya for years. Ernest Mabwa, manager of the Olkaria III power plant, estimates the potential electricity generation using geothermal resources in Kenya alone to be more than 4,000 MW – the equivalent of four large European nuclear power plants.

To further increase the share of Kenyan energy produced using geothermal resources beyond 15%, DEG structured and arranged total debt financing of USD 105 million to expand Olkaria III. The investment served to triple plant capacity from 13 to 48 MW. The power plant is considered a ground-breaking solution in the area of renewable energies in collaboration with the private sector. *emeafinance* magazine recently declared the project the best sustainable transaction 2008. Achim Steiner, director of the United Nations Environment Programme, commended the geothermal energy generation in the East African Rift Valley with near enthusiasm. Generating electricity in a manner that conserves resources is becoming increasingly important, not least because of climate change. Climate protection is thus gaining ground through the Kenyan geothermal power plant.



DEG – promoting entrepreneurial development

DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH), has been committed to promoting the build-up and expansion of the private sector in developing countries since 1962. Its entrepreneurial development cooperation is provided within the framework of the Federal Government's development policy. To this end, DEG grants private enterprises long-term investment finance from its own funds, which would not be available via commercial providers. DEG has been a KfW Bankengruppe company since 2001.

DEG is a financing partner to the private sector for investment in developing countries.

For almost 50 years, DEG has been a reliable partner with crisis experience to private enterprises that invest in developing countries. The prerequisite for receiving support from DEG is met if a project is commercially sound and viable in terms of development policy and is also environmentally and socially acceptable. DEG specialises in financing particularly for small and medium-sized enterprises. This primarily includes equity interests and mezzanine financing, but also loans and guarantees. Moreover, it advises enterprises in structuring their investments and supports them as a reliable partner also – and especially – in times of crisis.

By offering maturity-matched capital at market conditions and assuming risks, it enables the private sector to invest in developing and transition countries in the first place. DEG financings offer considerable leverage as they mobilise additional capital. DEG thereby makes a significant contribution to sustainable growth and permanently improves the living conditions of the people in the countries in which investment is made.

To date, DEG has provided more than EUR 11 billion and promoted around 1,600 enterprises in developing countries. Its financings have played a key role in kick-starting investments with a total volume of some EUR 71 billion.

Development of DEG's financing business

The financial and economic crisis has slowed the investment propensity of private enterprises.

Business performance was characterised by the sustained global financial and economic crisis, above all in the first half of 2009. Decreased demand by private enterprises for investment finance was especially noticeable in the first few months. On the other hand, financing options from commercial providers significantly declined in many DEG countries. Support for existing clients was in particular demand due to the crisis. With the economic cycle gradually recovering

in emerging market and developing countries, demand for DEG financing noticeably increased during the course of the year.

DEG achieved a considerable promotional volume of more than EUR 1 billion in 2009 as well. This enabled it to further establish its position as one of Europe's largest development finance institutions in supporting the private sector.

The total volume of DEG financing commitments in 2009 was EUR 1.01 billion (2008: EUR 1.22 billion). DEG's new business thus passed the billion mark for the third time in a row. Disbursements amounted to EUR 729 million. Its portfolio rose to EUR 4.7 billion (2008: EUR 4.4 billion) and involved 518 companies in 88 partner countries.

Structure of new commitments

Approximately half of DEG's new business involved projects in countries that are either considered high-risk or have low per capita income – and frequently both. The list of the least developed countries in which DEG was involved in 2009 includes Angola, Mozambique, Zambia, Tanzania, Uganda, Bangladesh and Laos.

DEG new business financed projects in 42 countries in 2009. Approximately 44% of projects with new finance commitments concerned high-risk countries and/or those with a low per capita income.

Entrepreneurial development cooperation in Africa was thus significantly expanded in 2009. In the reporting year, DEG provided by far its largest ever annual volume to the African continent.

Investment distribution by country

EUR 464 million of DEG financing was invested in Asia. EUR 266 million was provided for projects in Africa. EUR 173 million went to Sub-Saharan Africa and supraregional projects received EUR 83 million. Latin America received EUR 198 million, and Europe financing commitments in excess of EUR 80 million. EUR 7 million was granted to a supraregional project.

Financial sector

In the financial sector, the priority for financing was on banks and other financing institutions, primarily serving to improve the offering of financial services to companies in partner countries. In order to contribute to the professionalisation of the sector, DEG targeted

its activities to boosting the institutional strength of co-financed banks and private equity firms. Moreover, it is committed to establishing and implementing international corporate governance standards.

EUR 305 million was granted to the financial sector in 2009 (2008: EUR 488 million).

Manufacturing industry

The industrial sector is largely responsible for ensuring that skilled jobs are created and the transfer of knowledge is promoted in developing countries. For this reason, financing for manufacturing industry companies also constituted the largest share of direct

investment financing. DEG's new commitments enabled investments in the construction materials, chemical, pharmaceutical and metal industries, as well as in motor vehicle construction and mechanical engineering.

Infrastructure and the agricultural sector

Nearly one quarter of new commitments were allocated to financing for infrastructure projects such as energy and water supply, telecommunications, trans-

port and traffic. This was followed by investment projects in agriculture, the foodstuffs industry and services.

At EUR 276 million, financing to the manufacturing industry constituted around 27% of new business.

Infrastructure projects received EUR 251 million, and the agricultural sector EUR 141 million, or 14% of the promotional business volume. EUR 41 million was granted for the service sector.

Climate protection

In 2009, DEG granted a new record high totalling EUR 161 million to 25 investment projects that serve to protect the climate (2008: EUR 96 million). A further

14 projects relating to climate protection were financed through PPP and accompanying measures totalling EUR 2.6 million.

Financing products

EUR 149 million of the new commitments was allocated for equity investments in companies. Loans constituted around EUR 843 million, EUR 230 million of which were structured as quasi-equity loans.

Risk capital – equity investments and mezzanine financings – thus totalled EUR 379 million, around 37% of new business. EUR 23 million was granted for guarantees.

Promotional programmes

The Public-Private Partnership (PPP) programme set up by the BMZ for German and European companies, which DEG has been implementing since 1999, was modified in 2009. Competitions of ideas, in which companies can submit proposals for PPP measures, are held several times a year.

DEG supported the "Renewable Energies" and "Industrial Environmental Protection" focal areas in 2009. Measures with particularly innovative character can also be co-financed. The focal areas serve to ensure that particularly important areas of action are approached in a targeted manner in terms of development policy.

In 2009, a total of EUR 24.3 million was granted for 57 new PPP projects; EUR 9.9 million of this was public funds and EUR 14.4 million came from private companies.

Collaboration with the Bill & Melinda Gates Foundation

Together with the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), DEG has been executing a programme since 2008 in collaboration with the Bill & Melinda Gates Foundation to increase the competitiveness of African cotton in six African countries.

The promotional programme supports around 260,000 small farmers. It comprises training in sustainable farming methods as well as organisational support for certification and the sale of the cotton.

The Gates Foundation has provided USD 24.4 million and the BMZ approx. USD 7.5 million to this project with a total volume of USD 55 million to strengthen the competitiveness of African cotton. Local cotton companies have contributed USD 23.1 million.

Accompanying measures

In order to also increase the scope and structural effects of their financings in terms of development policy, DEG executed accompanying measures in co-financed projects in 2009, too. To this end, it applied EUR 1.0 million of own funds and received budget

funds from the BMZ of EUR 1.9 million. As a result, a total of 37 measures were financed which boost the economic, social and environmental sustainability of the projects.

European cooperation

DEG has been cooperating closely with its European partner institutions for a number of years. They have formed an alliance called the "European Development Finance Institutions" (EDFI). The association includes 16 bilateral development finance institutions that promote the private sector through direct collaboration with private companies. Twelve EDFI members

including DEG are participating with the EIB in European Financing Partners (EFP). The EFP support private investment in developing countries in Africa, the Caribbean and the Pacific (ACP states). DEG works very closely with two EDFI partners: the Dutch FMO and the French PROPARCO.

In 2009, the EFP partners increased the funds in a third tranche by a total of EUR 230 million, of which EIB provided EUR 100 million from the EU's Cotonou investment facility; EUR 130 million was granted by the bilateral institutions.

DEG financed 26 projects together with the FMO and PROPARCO, with a volume of around EUR 749 million, of which DEG provided 44%.

Developmental efficacy

The developmental quality of new commitments was also good in 2009. With an average value of 2.4, quality was nearly equal to that of the previous year (2.3). This was also the best score since the introduction of a qualitative and quantitative evaluation process in 2002. DEG's corporate policy project rating (CPPR) is currently used by 14 other international development finance institutions.

DEG investments contributed to securing and creating 196,000 jobs. As a result of the investments co-financed by DEG, around 196,000 jobs were secured or created. This corresponds to a plus of 43,000 over the previous year. This figure is augmented by 164,000 employees at supplier companies and ultimate borrowers in financial sector projects. Moreover, companies in partner countries contribute not only EUR 568 million to annual public revenues but also generate annual net foreign exchange revenues of around EUR 1.7 billion.

Result

Positive development
in operating
activities, pleasing
operating result
before risk
provisions.

Overall, financial year 2009 was characterised by the sustained global financial and economic crisis. Development in operating activities was positive despite challenging conditions; the operating result before risk provisions was also pleasing compared to the previous year. The profit/loss from operating activities was affected above all by necessary high risk provisioning requirements due to the global economic crisis, so a loss was recorded in the balance sheet.

In keeping with its development mandate, DEG is obligated to cover operating costs and risk provisions as well as to maintain sufficient reserves and to generate value-preserving interest on capital employed, thus enabling its support to be expanded. The increase in its own funds resulting largely from the high profits of the last few years continues to constitute a sound foundation.

The operating result before risk provisions was EUR 130 million (2008: EUR 115 million). Risk provisioning required an increased net allocation of EUR 178 million. Operating activities resulted in a loss of EUR 48 million. After tax, the loss for the year amounted to EUR 51 million, and, taking account of the withdrawal of EUR 1 million from the special-purpose reserve established for accompanying measures, a balance sheet loss of EUR 50 million (2008: balance sheet profit EUR 20 million) was reported.

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Outlook

Development
finance institutions
play a special role
in times of crisis
and credit crunch.

The importance of supporting entrepreneurial development has further increased as a result of both the global financial and economic crisis and the credit crunch. Providers of development finance like DEG thus now have a special role to play. Further economic recovery of the markets in its partner countries is expected for 2010.

This will be accompanied by increased demand for long-term financing. DEG will continue its promotional activity as a partner to private enterprises on

the basis of its decades of experience in financing in risky countries and in times of crisis.

New business volume of EUR 1.1 billion, or an increase of 10%, is planned for 2010. An annual increase of 7.5% is expected in new commitments in the medium term. DEG will further expand its quantitative and qualitative private sector promotion, especially of SMEs, promote investments in climate protection and collaboration with German companies, and provide targeted risk capital financing for investments.

“DEG will continue its entrepreneurial development cooperation as a partner to the private sector and on the basis of its decades of experience”.



Financial markets

A challenging environment for market participants

The "Financial markets" business area bundles in particular KfW's Group treasury, its funding activities and capital market-related transactions commissioned by the Federal Government. These transactions include, for example, the holding arrangements as part of the privatisation of Deutsche Telekom AG and Deutsche Post AG. Most of these activities involve securing appropriate funding and liquidity, as well as currency and interest rate management.

"The situation only started to ease when the central banks took decisive monetary policy action".

The global financial market crisis triggered an unprecedented downturn on the financial markets.

In 2009 too, developments in this entire business area were largely characterised by the global crisis on the financial markets. It was triggered by the crisis on the US real estate market in 2007, and has since left its mark on almost all sectors of the international financial markets.

This resulted in an unprecedented slump on the financial markets. The crisis finally reached its peak in the spring of 2009 with substantial price fluctuations. It was not until the middle of the year, when the central banks took decisive action to intervene in monetary policy terms, that the situation started to ease.

Capital market: KfW bonds sought-after among investors

In a difficult market environment, KfW's bonds are seen as a secure investment even more so than is normally the case. As a result, the demand for these bonds was high once again across the globe. This trend was reinforced primarily by KfW's status as a first-class issuer, which is owed to the explicit guarantee provided by the Federal Republic of Germany, as well as by its solid reputation on the international capital markets.

Funding via the capital market is essential

KfW Bankengruppe funds its promotional business almost exclusively via the international capital markets, where it raises 82% of all of its funds. It funds a further 9% of its business via the money markets.

Capitalisation of KfW Bankengruppe

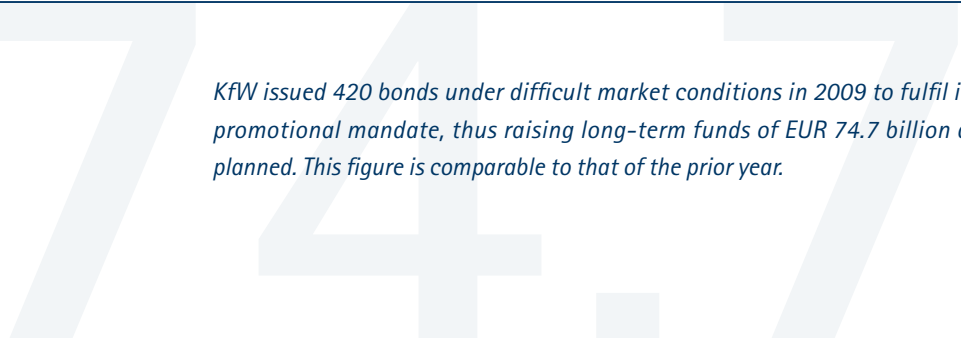
(EUR in billions as at 31 December 2009)



Differences in the totals are due to rounding.

The international capital markets were shaken by severe turbulence in 2009, with default risk premiums reaching all-time highs in mid-March. The

bond markets were marked by exceptional volatility and dried-up liquidity.



KfW issued 420 bonds under difficult market conditions in 2009 to fulfil its promotional mandate, thus raising long-term funds of EUR 74.7 billion as planned. This figure is comparable to that of the prior year.

The funding environment changed in the first half of the year in particular, on both the supply and the demand side. On the one hand, KfW was confronted with more intense competition due to the increased supply of government bonds and the issue of state-guaranteed bank bonds. On the other, major institutional investors took a restrained stance at the same time. These investors reassessed the risks associated with bonds and showed little interest in new issues.

KfW had to accept much poorer funding conditions in this volatile phase.

The markets started to calm down as the year progressed, which also benefited KfW's funding activities. The cost of long-term funding of the KfW Bankengruppe returned to a normal level, and was much closer to the long-term average again by the end of 2009.

Best possible financial rating

Since 1998, the Federal Republic of Germany has been explicitly liable for the bonds issued by KfW pursuant to Section 1a of the KfW Law. This is the basis for the best possible AAA/Aaa/AAA financial rating, which was confirmed once again by the three rating agencies Fitch Ratings, Moody's Investor Service and Standard & Poor's in 2009.

As a promotional bank with high funding requirements, KfW has to be continuously active on the international capital market.

KfW is one of the major players on the international capital markets, which it uses to fund almost all of its promotional business. It therefore has to be constantly active on the capital market. KfW is considered to be one of the world's most active bond issuers. KfW is a leading global player in the "Sovereigns, Supranationals and Agencies" capital market segment.

Crisis-proof funding strategy – KfW's three-pillar funding concept

- **The first pillar** consists of the two benchmark programmes in euros and US dollars. As part of these programmes, KfW offers investors high-volume bonds with typical benchmark maturities.
- **The second pillar** comprises public bonds offered outside the benchmark programmes. These are bonds in core currencies – e.g. the British pound – or local currency bonds that allow KfW to tap into emerging markets.
- **The third pillar** rounds off the mix of funding instruments with loans or privately placed KfW bonds. These are generally tailored to the specific demands of institutional investors, meaning that they are of a non-public nature.

The three pillars "benchmark programmes", "public bonds" and "private placements" have proven their worth on the market, and allow KfW to react to changing conditions quickly and flexibly.

Investors focus on benchmark programmes

The first pillar of KfW's funding covers bonds denominated in euros and US dollars with particularly high liquidity. These two benchmark programmes are strategic endeavours from KfW's perspective. The bank used them to cover 46% of its total funding in the year under review. Well-timed issue slots, and expert, rapid execution in spite of a difficult market environment, contributed to the success of the benchmark programmes.

Once again, KfW was the only issuer in its market segment that offered investors bonds in both currencies and with all benchmark maturities. These also included benchmark bonds in euros and US dollars with a maturity of ten years.

The KfW benchmark bond I/2009, denominated in euros, generated a record issue volume of EUR 6 billion. Looking at the placement of all EUR benchmark bonds, the proportion of German investors more than doubled year-on-year to 34%.

All in all, the domestic demand for EUR bonds increased in the year under review. But it was not only in Germany that investors turned their attention more to their domestic market. This trend was observed

across the globe. For example, there was considerable demand for KfW's US\$ benchmark bonds in the US. This applied to both the number of investors and the volume of their subscription orders.

€ Benchmark Programme 2009

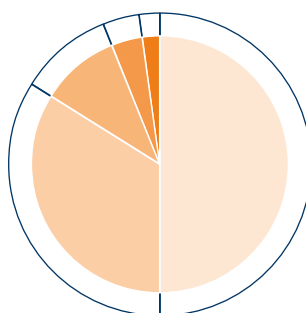
	EUR in billions	Term	Interest rate in %
KfW € Benchmark I/2009	6.0	10 years	3.875
KfW € Benchmark II/2009	5.0	5 years	3.125
KfW € Benchmark III/2009	5.0	3 years	2.250
KfW € Benchmark IV/2009	3.0	7 years	3.125

US\$ Programme 2009

	USD in billions	Term	Interest rate in %
KfW-\$-Benchmark I/2009	5.0	3 years	2.000
KfW-\$-Benchmark II/2009	2.0	2 years	1.875
KfW-\$-Benchmark III/2009	5.0	5 years	3.500
KfW-\$-Benchmark IV/2009	3.0	3 years	2.250
KfW-\$-Benchmark V/2009	3.0	10 years	4.875
KfW-\$-Benchmark VI/2009	3.0	5 years	2.750

Placement of KfW € Benchmark Bonds

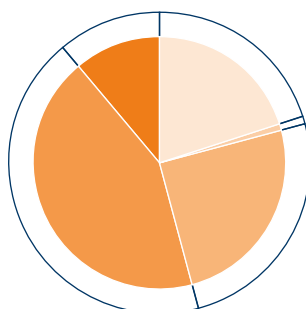
2009



Europe (excl. Germany)	50%
Germany	34%
Asia	10%
North America	3%
Other regions	2%

Placement of KfW US\$ Benchmark Bonds

2009



Europe (excl. Germany)	20%
Germany	1%
Asia	25%
North America	43%
Other regions	11%

Differences in the totals are due to rounding.

More than an extension: other public bonds and private placements

The second pillar of the funding concept covers all public transactions in core currencies outside of the benchmark programmes. Local currency bonds, which have become increasingly important in recent years, also make a key contribution to refinancing.

KfW raised a total of EUR 27.7 billion in the second pillar of its funding strategy, which corresponds to 37% of its long-term funding. Privately placed KfW bonds and loans contributed 17% to KfW's total funding volume in the year under review. This corresponds to funds totalling EUR 12.7 billion.

The third pillar of KfW's funding strategy comprises loans and privately placed KfW bonds which are primarily based on individual demand from institutional investors. Together, the second and third pillars of the bank's funding strategy accounted for more than half of all funding. The broad-based nature of KfW's funding strategy puts it in a position to react flexibly to market conditions at all times. Products can be substituted quickly for limited periods, or new products launched on the market.

The three pillars of KfW's funding strategy enable positive interaction between the individual capital market products. It is often the case that, after making an initial investment in KfW bonds, institutional investors make follow-up investments in products from the other pillars.

Funding in 2008/2009 by instrument

	2009		2008	
	EUR in billions	%	EUR in billions	%
Securities	73.0	98	74.1	98
<i>Benchmark bonds</i>	34.4	46	38.4	51
<i>Public bonds</i>	27.7	37	28.0	37
<i>Private placements</i>	11.0	15	7.7	10
Loans	1.7	2	1.3	2
<i>Credit-linked notes</i>	0.1	0	0.3	0
<i>Other</i>	1.5	2	1.0	1
Total	74.7	100	75.3	100

Differences in the totals are due to rounding.

Variety of currencies: strategic added-value
for KfW's funding activities

"KfW avoids currency risks by executing
hedging transactions at the same time as
securities issues".

KfW raises 90% of
the capital market
funds for its
refinancing in euros,
US dollars, pounds
sterling and
Japanese yen.

The euro, US dollar, pound sterling and Japanese yen are the major core currencies for KfW's funding. In 2009, KfW raised almost 90% of the capital market funds for its refinancing in these four currencies. Other major currencies in the year under review were the Australian dollar, the Norwegian krone and the Swiss franc, although these currencies are of only minor importance for KfW's funding. Nevertheless, KfW plays an important role on these market segments. In the year under review, KfW placed bonds denominated in a total of 19 different currencies on the market.

Currency mix of KfW's funding

- € *KfW's most important funding currency remained the euro. With a total volume of EUR 32.8 billion, its share remained on a par with the previous year at 44 %. All EUR benchmark transactions met with considerable investor interest again and were oversubscribed. KfW raised funds of EUR 13.7 billion via other EUR bonds and business with promissory note loans.*

- \$ *The US dollar is KfW's second most important funding currency. In the year under review, KfW raised US dollar capital market funds equivalent to a total of EUR 25.7 billion. The US dollar's share of the total funding volume remained virtually unchanged against the previous year at 34 %. Investor interest from the US was considerable in 2009, which is confirmed by the development of the US Medium-Term Note Programme. This issue platform was tailored specifically to the needs of institutional investors based in the US, and allows structured capital market products to be marketed in the US. In 2009, long-term funds totalling USD 2.5 billion were raised under the programme – more than ever before.*

- £ *KfW has also been a very active issuer with a solid market position in pounds sterling for years now. In 2009, KfW raised funds equivalent to EUR 5.6 billion in the world's third-ranking reserve currency. This corresponds to 7 % of its funding volume. Sterling bonds had a fairly subdued start to the year, also in light of at times unattractive funding conditions for KfW. As the year progressed, however, issuing activity started to return to the brisk levels seen in previous years.*

- ¥ *The Japanese capital market has traditionally been a key source of funding. The products on offer range from private placements to public, variable rate yen bonds with an issue volume of JPY 65 billion. As for structured products, there was particular demand for bonds offering interest payments that track the performance of the Japanese stock market. Bonds denominated in Japanese yen worth the equivalent of EUR 2.8 billion contributed 4 % to the total funding volume. This is more than double the contribution seen in the previous year.*

Funding in 2008/2009 by currency

Currency	2009		2008	
	EUR in billions	%	EUR in billions	%
EUR	32.8	44	34.1	45
USD	25.7	34	25.4	34
GBP	5.6	7	9.0	12
JPY	2.8	4	1.2	2
Other currencies	7.8	11	5.6	7
<i>European currencies (e. g. CHF, NOK, SEK, TRY)</i>	2.9	4	2.9	4
<i>Australian/Oceanic currencies (AUD, NZD)</i>	3.5	5	1.9	3
<i>American currencies (BRL, CAD, MXN)</i>	0.5	<1	0.4	<1
<i>African currencies (e. g. EGP, NGN, ZAR)</i>	0.2	<1	0.3	<1
<i>Asian currencies (e. g. HKD, IDR, SGD)</i>	0.8	1	0.1	<1
Total	74.7	100	75.3	100

Differences in the totals are due to rounding.

KfW passes the "financial market crisis" stress test and is well-equipped to tackle 2010

As a reliable, transparent and sustainable issuer, KfW successfully passed the "funding in the financial market crisis" stress test.

The overall environment for funding activities was challenging in 2009, which was to be expected. Even major issuers with top credit quality were unable to avoid the at times turbulent market developments. Given these overall conditions, KfW's presence on the capital market can only be described as very positive, which is testimony to its good reputation. Furthermore, the tried-and-tested three-pillar strategy allowed KfW to raise all funds on the markets that it needed to fulfil its mandate. The efforts made in the past to boost KfW's international recognition paid off once again. The broadly diversified investor base also played a crucial role in securing key room for manoeuvre in terms of funding.

KfW expects its funding requirement to remain the same in 2010 at between EUR 70 billion and EUR 75

billion. In order to meet its funding requirements, it will rely on its tried-and-tested combination of benchmark bonds, other public bonds and private placements.

KfW expects the markets to once again be faced with an uncertain news situation and considerable fluctuations in 2010. Consequently, KfW's ability to remain flexible, both in a temporal sense and in terms of product selection, will remain key to the success of its funding strategy. The aim is to strengthen ties with new investors, in particular, for the long term. This will require ongoing dialogue with investment banks and investors, as well as a transparent market presence with fair prices for new issues. These maxims will continue to guide KfW's activities as an issuer in 2010 as well.

Money market: strong demand for commercial paper

The subdued risk appetites of many investors kept the demand for secure short-term investments high. KfW Bankengruppe's funding through commercial paper stabilised in 2009 after reaching a record volume in the previous year.

KfW short-term commercial paper programmes are a key component of its liquidity management.

KfW commercial paper combines a top-notch credit rating, a high degree of flexibility and a stable market presence. This means that it meets the highest demands of investors across the globe. KfW used its two commercial paper programmes to raise short-term funds for a term of up to twelve months. The two programmes are important components of the KfW Bankengruppe approach to liquidity management, and are well established on the international money markets.

KfW issues commercial paper in all major currencies. It thus offers an opportunity to acquire short-term securities, subject to German government default risk, that are not issued in euros. In the short-term market segment, KfW has been successfully defending its

position among the world's largest commercial paper issuers with its two programmes for years now.

The multicurrency commercial paper programme designed for the euro zone is the most important short-term source of funding for KfW Bankengruppe. It offers issues in all major currencies. Although issues fell short of the previous year, they were still far higher than before the financial market crisis. This was partly attributable to the constant high funding requirements and partly to KfW's preferred status among investors thanks to its excellent credit rating. Of course this is all the more important in times of crisis. This meant that KfW achieved very attractive refinancing conditions for short-term funding via the money market in the year under review.

"In the short-term market segment, KfW has been successfully defending its position among the world's largest commercial paper issuers for years now".

KfW kept its issue volume at a comparatively high level in 2009 despite a challenging environment.

The US commercial paper market felt the impact of market tension in 2009 as well. The financial market crisis created a challenging environment here too. Nevertheless, the issue volume remained at a comparatively high level. KfW uses this programme to cover a large proportion of its need for short-term funds in US dollars. The refinancing conditions that it managed to secure were attractive across the board.

Commercial paper programmes

The Multicurrency Commercial Paper Programme accounts for a programme volume of EUR 35 billion, while the average outstanding volume was EUR 22.7 billion in the year under review. The volume of the US Commercial Paper Programme totals USD 10 billion, with an average outstanding volume of USD 7.7 billion in 2009. Taking both commercial paper programmes together, KfW issued securities in 2,253 transactions in 2009 (2008: 2,782).

KfW's securities transactions

At KfW, securities management relates first and foremost to managing financial investments to control liquidity across the Group. The bank restructured its securities strategy in 2009.

As a conservative investor, KfW invests exclusively in fixed-income securities with good credit ratings, e.g. in bank bonds and Pfandbriefe (German covered bonds).

KfW's securities business consists primarily of a liquidity portfolio. The aim of this portfolio is to ensure that KfW remains in a position to act even if it has no access to the capital market. As a conservative investor, KfW invests exclusively in fixed-income securities with good credit ratings (investment grade). It invests in the "bank bonds", "Pfandbriefe", "public sector" and "supranational institutions and agencies" asset classes. Furthermore, a large portion of the bonds must be eligible for the ECB collateral pool, giving KfW access to the equivalent volume of ECB primary liquidity. In addition to the liquidity portfolio, KfW has a separate portfolio for the market

management of its own KfW bonds. KfW manages both portfolios in-house.

In addition to its securities business, KfW is also involved in lending business in the form of securities. These transactions are not assigned to the "Financial markets" business area; they fall under promotional lending business. Furthermore, the bank holds securities in a "phase-out portfolio" which KfW did not classify as being of strategic significance during the financial crisis and now aims to phase out in the medium term.

At the end of 2009, KfW's liquidity portfolio accounted for a volume of EUR 22.0 billion. Combined, all of the securities items on KfW's balance sheet corresponded to a volume of EUR 33.7 billion (2008: EUR 44.2 billion). The difference is due largely to KfW's lending business in the form of securities.

Social responsibility on capital market high on agenda

Sustainable financial investments are becoming increasingly important for KfW. The bank has played a pioneering role in this field, and has also incorporated environmental, economic and social responsibility – referred to using the umbrella term “corporate social responsibility” – into its “Financial markets” business area.

Corporate social responsibility (CSR) means two things for KfW's treasury: investing its own funds on the capital market in a socially responsible manner and using KfW bonds to make itself particularly attractive to other socially responsible investors.

Securities investments aimed at securing liquidity are checked against credit rating and CSR criteria.

KfW was one of the first German companies to sign the United Nations' “Principles for Responsible Investments”.

Since early 2008, KfW has been assessing not only the credit rating of the securities investments it holds to secure liquidity, but also compliance with CSR criteria. For this purpose, the bank created its own definition, which encompasses the criteria of “environment”, “social concerns” and “corporate governance”.

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

Independent rating agencies specialised in the sustainable investment sector analyse and rate the “corporate social responsibility” of equity and bond issuers for institutional investors. In addition to environmental management and the company's offering of products and services, such CSR ratings evaluate a number of additional aspects such as working hour models for employees, organisational measures to combat corruption and the securities investment strategies implemented.

For many years, KfW has been rated by the two CSR rating agencies “Oekom Research” and “Sustainalytics”, and has been assigned a top ranking by each in their international sector comparisons. All KfW bonds thus offer attractive investment opportunities for socially responsible investors (SRI).

Corporate
Responsibility

Prime

rated by

oekom research

In 2009, "Sustainalytics" (Frankfurt) rated KfW first in the segment encompassing ten "development agencies".

"Oekom Research" (Munich) assigned KfW its second-best rating in the "development banks" segment, consisting of 20 financial institutions and development banks, in 2009. This means it is rated a "prime investment".

KfW Bankengruppe has done a great deal in the field of sustainability over the last few years. The Sustainability Report, published in 2009, offers a wealth of examples and provides information on all of the bank's activities that fall under the term "sustainable action".



*Sustainability Report 2009 of
KfW Bankengruppe*

Privatisation of Deutsche Telekom and Deutsche Post

KfW has been commissioned by the Federal Government to play a key role in the privatisation of Deutsche Telekom AG and Deutsche Post AG. Within this context, KfW held 16.9% of the share capital of Deutsche Telekom AG and 30.5% of the share capital of Deutsche Post AG at the end of 2009.

Capital market developments meant that no further shares in Deutsche Post or Deutsche Telekom could be sold in 2009.

As part of the privatisation of Deutsche Telekom AG and Deutsche Post AG, KfW has been buying shares from the Federal Government, and selling some of them in various capital market transactions, in several stages since 1997. The developments witnessed on the capital markets meant that KfW was unable to reduce its shareholdings any further in 2009.

In July 2009, however, KfW issued new bonds exchangeable into shares in Deutsche Post AG which will mature in July 2014. No further privatisation activities took place in the year under review. KfW and the Federal Government have agreed that further privatisation moves will be initiated as soon as conditions on the capital market are suitable.

Equity investments and exchangeable bonds


KfW's holdings in Deutsche Telekom AG and Deutsche Post AG stand at 735.7 million shares and 368.3 million shares respectively. This represented 16.9% and 30.5% of the share capital of the respective companies as at 31 December 2009. The new exchangeable bond based on Deutsche Post AG shares, issued in July 2009 in the amount of EUR 750 million, would reduce KfW's share in Deutsche Post AG by 4.5% were all of the holders of bonds to make use of their conversion right.



Services

Financial reunification: tasks resulting from the fall of the Berlin Wall

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



The original volume of approximately EUR 3.3 billion has since been reduced to around EUR 10 million.

Outstanding financial burdens: foreign trade relations maintained by the GDR

On behalf of the Federal Government, KfW is handling claims against a number of other countries resulting from intergovernmental agreements on the termination of foreign trade relations with the former GDR. KfW is also, on behalf of the Federal Government, handling claims on German exporters for reimbursement arising out of amounts that were wrongly offset

against transfer rubles. The amounts received in this regard are transferred to the Federal Government.

During the year under review, KfW was able to collect approximately EUR 23.8 million for the Federal Government on the basis of intergovernmental agreements and claims against exporters.

Currency Compensation Equalisation Fund

KfW also administers the Currency Compensation Equalisation Fund, established in connection with German monetary union. As at 31 December 2009, compensation claims had been paid in full. Nevertheless, compensation liabilities to the Inherited Debt Fund are still outstanding.

Compensation claims of EUR 45.6 billion had been paid in full as at 31 December 2009. The allocated compensation liabilities added up to EUR 1.9 billion. After deduction of the redemption payments already made, EUR 7.8 million in compensation liabilities against the Inherited Debt Fund are still outstanding.

Special tasks

The Finanzierungs- und Beratungsgesellschaft (FuB) identifies persons entitled to make claims on former foreign currency accounts and settles their claims.

The Finanzierungs- und Beratungsgesellschaft mbH (FuB) is responsible for special tasks relating to currency conversion, specifically, identifying those persons entitled to make claims on foreign currency accounts held by foreigners during the time of the GDR. Many creditors have been identified by the FuB and claims either settled or transferred to the Compensation Fund at the Federal Office for the Settlement of Open Property Matters. Only a small number of items remain unresolved.

Since 2007, the FuB has also been handling the winding up of the State Insurance Company of the GDR (SinA). KfW was appointed as the legal successor of SinA with effect from 1 January 2008. Its remit includes the settlement of insurance claims incurred in the period prior to 31 July 1990.

A wide-ranging remit

Just under 420 credit items in the amount of approximately EUR 0.3 million have been paid out to previously unknown creditors/the responsible compensation fund. As at 31 December 2009, only about 2,070 accounts representing a total of around EUR 3.2 million remained. There were still approximately 1,740 outstanding claims relating to the State Insurance Company of the GDR as at 31 December 2009.

Other services

Compensatory Fund for Securities Trading Companies

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

In the year under review, EdW processed 10,800 claims and paid out compensation amounting to around EUR 47 million.

Foundations

In the reporting year KfW also managed the Contergan Foundation for the disabled (*Contergan-Stiftung für behinderte Menschen*) and a foundation which provides humanitarian aid for people infected with HIV through blood products (*Humanitäre Hilfe für durch Blutprodukte HIV-infizierte Personen*) on behalf of the Federal Government. KfW paid out around EUR 51 million in compensation to some 3,400 beneficiaries through these two foundations in 2009.



The men and women
on our staff

The most human side of KfW: our staff

Even in the second year of the financial crisis, KfW remains a responsible employer towards its staff. It is not considering any redundancies for operational reasons, thus preventing any loss of key expertise that would otherwise result from staff losses. This also makes it more attractive as a potential employer to job applicants.

KfW's main stance is to safeguard existing jobs.

Planning is different at every company. KfW Bankengruppe's personnel policy has traditionally been aimed at striking a balance between staff growth that is commensurate with the volume of business, and keeping staff costs in check. This fundamental stance secures existing jobs even during a recession. Furthermore, the "Perspective for KfW" modernisation project was successfully completed in the year under review.

This project has allowed KfW to boost the quality and efficiency of its work by implementing extensive structural reorganisation. The response from the bank's employees was impressive. Many employees have risen to the challenge of their new professional activities and were even prepared to relocate.

"There are few other indicators that say as much about a company's continuity and growth as its staff numbers".

Employees that develop along with their responsibilities

Over the course of the past financial year, the average number of staff increased slightly. The moderate personnel growth affected almost all business areas. Development policy challenges meant that new duties were entrusted to the development cooperation business area, for example. This created a need for staff growth at KfW Entwicklungsbank well above the company average.

Despite the need to keep a close eye on costs, KfW was once again keen to show social responsibility towards the young generation. It kept the number of training places for school-leavers at a high level.

Employee figures

As at the year-end, KfW employed 3,568 people (2008: 3,485). This means that the workforce expanded by 2.4% (2008: 4.3%). The proportion of staff not covered by collective agreements, at two thirds of the entire workforce, remained more or less constant compared with the previous years. In contrast, there was a slight rise in the proportion of part-time employees, up to 18.1% (2008: 17.6%).

**"We help, not hinder.
Especially as far as
people with disabilities
are concerned".**

The proportion of employees with severe disabilities was 5.8% (2008: 6.4%) in the year under review. This meant that KfW once again well exceeded the statutory minimum of 5%. The bank will continue to maintain a particular sense of social commitment in the future too, and strive towards the integration of people with severe disabilities.

A bank where more and more women hold their own

Ensuring equal rights for male and female employees plays an important role at KfW. In this respect, the bank can look back on a long tradition that stretches into an era before statutory regulations like the Advancement of Women Act or today's Federal Equal Opportunities Act (BGleiG) were in place.

A stronger position
for women thanks
to the Equal
Opportunities Plan

Although the bank employs a balanced number of men and women, women are still underrepresented at management level. This is something that we want to change. The company's previous Plan for the Advancement of Women and its current Equal Opportunities Plan show that ensuring equal rights for men and women means strengthening the position of our female employees. Creating a family-friendly environment is key in this respect.

Following the birth of a child for example, KfW makes it possible for both male and female employees to either return to work as soon as possible, or take longer parental leave while their employment contract is suspended, depending on their personal and professional preferences.

The bank's kindergarten is a long-standing example of the many family-friendly measures in place. In its 36-year history, it has more than proven its worth as a facility that allows parents to combine work and family. It allows the bank to offer many of its employees a combination of childcare at the bank and part-time agreements in combination with teleworking structures. Employees can agree an individual package depending on their respective needs. Incidentally, the same applies to female managers too, who can opt for job-sharing models based on 70% of full-time employment, allowing them to flexibly share their tasks with a partner. Five female management job-share teams made use of this option in the year under review.

Family-friendliness regularly put to the test

KfW Bankengruppe has its family-friendly personnel policy independently assessed on a regular basis. Since 2001, for example, it has been taking part in the "Career and Family" audit, which is supported by the non-profit Hertie foundation. This audit repeatedly puts the bank's work/family balance to the test – and

it can be proud of the results. Through its family-aware personnel policy, KfW increases the motivation of its staff, ensuring that they feel connected to the company even during periods of leave for family-related reasons. At the same time, this makes the bank more attractive as an employer on the job market.

The emancipation of a company

The proportion of women managers in the first level below the Managing Board (divisional directors) has increased over the past ten years from 0% to 14%, whilst the increase in the second level (heads of department) has been from 7% to 14%. Finally, a rise from 12% to 32% has been recorded in the third management level (deputy heads of department). Overall, women now account for 27% of managerial staff, compared with 9% ten years ago. The proportion of women employed in the company as a whole is constant at approximately 50%.

A company with the best people on the job – succession management

When it comes to recruiting a company's management staff, highly qualified employees have to be available to step into their predecessor's shoes in good time. KfW has carved out its own individual path with its management succession programme, a structured, formal process to identify and develop suitable "high potentials" within the company.

Succession management is an effective tool that KfW is using to recruit managers from within the company wherever possible. The process means that any impending vacancies are pinpointed in good time, and high potentials prepared specifically for their new responsibilities.

Definitive recruitment decisions are still made on the basis of the selection assessment procedure, which has been used successfully for years. The current succession management programme was launched in October 2009. All managers at all management levels have to go through the programme every two years.

"Companies need transparent career paths".

The benefit for the managers lies in regular, systematic assessments. These allow potential to be identified early on, and then promoted within a forward-looking personnel development programme. Furthermore, there are regular appraisals in which managers are provided with structured feedback on their potential and can talk openly about their own development goals. As well as promoting targeted and needs-based personnel development, this procedure also, and most importantly, fosters equal opportunities. After all, the employees involved are all assessed against the same criteria by several different appraisers.

In turn, KfW also benefits from its succession management. Early warning of imminent personnel bottlenecks is of course a considerable advantage. There is a marked difference between this approach and job-based selection procedures, in which the focus is on only one specific management position. Together with the recruitment flexibility and broader knowledge base promoted by regular job rotation, the succession management strategy provides the bank with top-class management expertise.

Conclusion of the staff agreement "Salary determination and remuneration at KfW"

Following intense and constructive negotiations between the management and employee representatives, the new staff agreement entitled "Salary determination and remuneration at KfW" was signed in December 2009. It came into effect on 1 January 2010 and applies to all KfW employees. The remuneration structures set out in the staff agreement take into account KfW's business model as a state promotional bank, and meet the requirements that the MaRisk regulatory standards impose on bank remuneration

systems. The variable remuneration is based on a structured objectives management system that features a hierarchy of objectives and transparent, performance-related appraisals. The fact that the system is structured as a performance-based reward system as opposed to a monetary incentive system tied to specific figures prevents mismanagement. The Managing Board sets the amount of variable remuneration to be distributed every year.

Lack of new talent should be a lesson to the corporate sector

There are many reasons why it makes sense not to restrict vocational training in times of crisis. For one thing, the fact that vocational training takes several years would mean a lack of up-and-coming new talent after the crisis. For another, KfW's status as a public-law institution means that it has a particular responsibility as far as vocational training is concerned. What is more, KfW's personnel planning is not based on short-term requirements anyway – it always pursues a long-term personnel policy. Training is one of the main personnel-related investments that KfW makes.

Training young talents

In autumn 2009, at the start of a new training year, there were a total of 185 young people beginning their first course of vocational training (2008: 175). After successful trainees were employed by the bank at the end of their training, 172 trainees were still involved in the vocational training programme at the end of the year (2008: 170). At 30, the number of graduate trainees was back at a normal level, after peaking at 56 in the previous year due to increased requirement. The total number of interns and vocational and graduate trainees was 219 (2008: 233). This equated to a training rate of 6.1% (2008: 6.7%).

We'd like to say thank you!

What would KfW Bankengruppe be without the commitment of its staff? So we would like to say thank you to all of the people who helped us to fulfil our promotional mandate. All staffing, social, organisational and economic issues were discussed at regular meetings with the relevant employee representatives

and the equal opportunities officers. We would like to thank the General Staff Council, the local Staff Councils and the Equal Opportunities Officer and her deputy for the good working relationship based on trust enjoyed over the past year.

In memoriam

We mourn the loss of our colleague Hanno Sonntag, who passed away in 2009. We also mourn the deaths of the following retired members of our staff:

*Eileen Arndt
Walter Auth
Erika Bahnemann
Robert Benz
Auguste Blättermann
Marianne Buchert
Marianne Burck
Willy Denkinger
Wilhelm Friedl*

*Philipp Goretzki
Michael Gorniak
Karl-Heinz Kapke
Norbert Kliver
Lucie Kurtz
Waltraud Lind
Heinrich Löhner
Gustav Ignatius Makowski
Rüdiger Sachs*

*Udo Schnell
Antonio Sodero
Marija Spieß
Dr Franz-Dietmar Sprenger
Valentin Wehr
Klaus Wendlandt
Monika Wenzlaff
Ingrid Wittig
Christel Zarka*

We will always remember them with gratitude.

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