

ANNUAL REPORT 2001





#### KEY IMAGES FOR 2001.

KfW sees itself as providing major impulses worldwide for economic development, society and ecology. This is reflected in the day-to-day work in the bank. Out of the wide range of national and international KfW projects we show the highlights of the past year on pages 13 to 37 of this Report.

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# BOARD OF MANAGING DIRECTORS.



Dr. Peter Klaus



Detlef Leinberger



Hans W. Reich (Chairman)



Ingrid Matthäus-Maier



Wolfgang Kroh

## BOARD OF MANAGING DIRECTORS.

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

## GENERAL MANAGER.

Dr. Günther Bräunig

## DIRECTORS.

Werner Frank  
Werner Genter  
Heinrich Heims  
Gerhard Lewark

Christian Murach  
Dr. Hanns-Peter Neuhoff  
Werner Oerter  
Christiane Orłowski

Dr. Walter Paul  
Rüdiger Saß  
Dr. Bernd Schreiber  
Gunnar Seibert

Dietrich Suhlrie  
Detlef Vogt  
Bruno Wenn

# KEY FIGURES FOR KfW.

## Key Figures for KfW EUR million

|   | 1999                | 2000            | 2001            |
|---|---------------------|-----------------|-----------------|
| <b>Total commitments</b>  | <b>43,447.4</b>     | <b>36,161.3</b> | <b>36,567.4</b> |
| Promotion of the German and European economies  | 41,781.0            | 34,678.1        | 33,678.8        |
| Investment finance in Germany <sup>1)</sup>   | 32,009.3            | 21,911.5        | 23,494.9        |
| Investment loans <sup>1)</sup>  | 31,360.4            | 21,054.8        | 22,845.3        |
| <i>of which: new federal states</i>   | 9,763.9             | 4,104.1         | 3,911.5         |
| <i>project loans in Germany</i>   | 3,838.9             | 4,860.8         | 3,457.6         |
| Guarantees in Germany   | 643.6 <sup>4)</sup> | 752.0           | 589.5           |
| Grants in Germany   | 5.3                 | 104.6           | 60.1            |
| Investment finance in Europe <sup>2)</sup>  | 471.4               | 1,575.2         | 1,749.3         |
| Export and project finance  | 9,300.3             | 11,191.4        | 8,434.6         |
| Export and project loans  | 9,235.3             | 10,943.0        | 8,222.6         |
| <i>of which: guarantees abroad</i>  | 905.2               | 347.8           | 435.2           |
| Funding AKA export loans  | -                   | 100.0           | 25.0            |
| Grants abroad   | 65.0                | 148.4           | 187.1           |
| Promotion of the developing countries   | 1,633.6             | 1,451.9         | 2,848.5         |
| FC commitments at preferential conditions   | 1,633.6             | 926.8           | 1,302.5         |
| From federal budget funds   | 1,278.0             | 850.8           | 1,026.3         |
| <i>of which: loans</i>  | 640.4               | 309.9           | 546.1           |
| <i>grants</i>   | 637.6               | 540.9           | 480.2           |
| From market funds in composite finance/<br>mixed finance/Market Funds Initiative for Southeast Asia | 355.6               | 76.0            | 225.1           |
| Interest rate reduction   | -                   | -               | 51.1            |
| Commitments for FC promotional loans  | -                   | 525.0           | 1,546.0         |
| Memo item: Mandates (EU, GEF, etc.)   | 5.0                 | 40.0            | 134.0           |
| Advisory and other services   | 20.8                | 17.2            | 30.5            |
| Grants  | 20.8                | 17.2            | 30.5            |
| <b>Total loans</b>  | <b>41,158.0</b>     | <b>34,236.2</b> | <b>34,775.2</b> |
| <b>Total guarantees<sup>3)</sup></b>  | <b>1,560.7</b>      | <b>1,113.9</b>  | <b>1,034.3</b>  |
| Securitization of promotional loans   | -                   | 3,500           | 5,198.0         |
| <b>Total grants</b>   | <b>728.7</b>        | <b>811.1</b>    | <b>757.9</b>    |
| <b>Disbursements</b>  | <b>36,318</b>       | <b>33,548</b>   | <b>37,746</b>   |
| <b>Volume of business</b>   | <b>225,383</b>      | <b>256,940</b>  | <b>282,707</b>  |
| <b>Balance sheet total</b>  | <b>196,642</b>      | <b>223,074</b>  | <b>244,883</b>  |
| <b>Capital and reserves</b>   | <b>5,898</b>        | <b>6,640</b>    | <b>7,360</b>    |
| <b>Net income for the year</b>  | <b>271</b>          | <b>205</b>      | <b>186</b>      |
| <b>Number employed</b>  | <b>1,900</b>        | <b>2,032</b>    | <b>2,190</b>    |

<sup>1)</sup> Not including KfW Programme for Small and Medium-Sized Enterprises Abroad and KfW Environmental Programme Abroad

<sup>2)</sup> Including KfW Programme for Small and Medium-Sized Enterprises Abroad and KfW Environmental Programme Abroad

<sup>3)</sup> Including KfW Venture Capital Programme (irrevocable guarantees), irrevocable letters of credit and acceptance commitments (2001: EUR 6.9 million)

<sup>4)</sup> Including guarantees on loans by commercial banks to finance commercial property in Germany.  
Differences in the sums due to rounding.

# REPORT OF THE BOARD OF SUPERVISORY DIRECTORS.

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

In each of these meetings the Board of Managing Directors gave up to the minute reports on the development and outlook in the various fields of business and on principle issues in corporate policy and strategy. The acquisition of DEG was discussed, as was the acquisition of shares in IKB Deutsche Industriebank. In the discussions on the new banking supervisory regulations on appropriate equity capital (Basel II) the suitability of these in regard to the SME sector was the main focus of attention. The stage of the consultations with the European Commission on the organization of the bank to conform with EU requirements was also discussed several times.

The Board of Managing Directors provided information on innovations in finance for small and medium-sized firms under the headings securitization, global loans and risk-oriented margins. In export and project finance, besides the general economic situation and growth expectations, the main focus was on the risk position and individual project, country and sector risks. In this connection reports were also given on the new direction of the bank's internal credit risk steering. In addition, the Board of Supervisory Directors was informed of the development of the new FC promotional loans refinanced in the capital market. The Board of Managing Directors regularly commented on the borrowing in domestic and foreign capital markets and reported on the developments in the balance sheet and earnings position. The Loan Approvals Committee concerned itself in its meetings with the

commitments that have to be presented under the Law and By-Laws.

The Advisory Council for Promotional Measures in the New Federal States appointed by the Board of Supervisory Directors discussed the following subjects: The factors influencing the successful development of the eastern German regions, the new federal states in innovation competition and project finance in the new states – as an alternative form of finance for public transport infrastructure.

During the year under review Minister of State Professor Dr. Kurt Faltlhauser, Senator Peter Kurth (ret.), Dr. Bernd Thiemann and Dr. Werner Upmeyer left the Board of Supervisory Directors. The Board of Supervisory Directors thanks these former members for their intensive cooperation and valuable commitment to the concerns of the bank. Dr. Ulrich Brixner, Lutz Freitag and Minister President Erwin Teufel joined the Board of Supervisory Directors. Senator Christine Krajewski was a member from September 27, 2001 to January 16, 2002.

PwC Deutsche Revision AG, Frankfurt am Main, who were appointed auditors by the Supervisory Authority following the proposal by the Board of Supervisory Directors, have examined and unconditionally confirmed the Annual Financial Statements drawn up by the Board of Managing Directors as of December 31, 2001. The Board of Supervisory Directors approved the Annual Financial Statements in accordance with §9, Paragraph 2 of the KfW Law in its meeting on May 10, 2002.

Frankfurt am Main, May 10, 2002

THE BOARD OF SUPERVISORY DIRECTORS



Chairman



Hans Eichel  
Federal Minister of Finance

# BOARD OF SUPERVISORY DIRECTORS.

## DUTIES OF THE BOARD OF SUPERVISORY DIRECTORS.

The Board of Supervisory Directors supervises the conduct of the bank's business and the administration of its assets. It approves the larger loans and the Annual Statement of Accounts. The Board of Supervisory Directors consists of 28 members. The Chairman is the Federal Minister of Finance and the Deputy Chairman is the Federal Minister of Economics and Technology.

### Hans Eichel

Federal Minister of Finance  
Chairman

### Dr. Werner Müller

Federal Minister of  
Economics and Technology  
Deputy Chairman

### Peter Benz

Lord Mayor of the City of Darmstadt  
Representative of the Municipalities

### Kurt Bodewig

Federal Minister of Transport,  
Building and Housing

### Anton F. Börner

President of the Bundesverband  
des Deutschen Gross- und Aussen-  
handels e.V.  
Representative of Trade

### Dr. Ulrich Brixner

Chairman of the Board of Managing  
Directors of DZ BANK AG  
Representative of the Cooperative  
Banks  
(since Jan. 1, 2002)

### Prof. Dr. Kurt Faltlhauser

Minister of Finance of  
the Free State of Bavaria  
Member appointed by  
the Bundesrat (Upper House)  
(until Dec. 31, 2001)

### Joschka Fischer

Federal Minister of Foreign Affairs

### Lutz Freitag

President of the GdW Bundesver-  
band deutscher Wohnungsunter-  
nehmen e.V.  
Representative of Housing  
(since Jan. 1, 2002)

### Dr. Rolf-Jürgen Freyberg

Spokesman of the Board of  
Managing Directors of BGAG  
Beteiligungsgesellschaft der  
Gewerkschaften AG  
Representative of the Trade Unions

### Wolfgang Gerhards

Minister of Finance of the  
State of Saxony-Anhalt  
Member appointed by  
the Bundesrat (Upper House)

### Dr. Frank Heintzeler

Spokesman of the Board of  
Managing Directors of Baden-  
Württembergische Bank AG  
Representative of the Commercial  
Banks

### Dr. Dietrich H. Hoppenstedt

President of the Deutscher Sparkassen-  
und Giroverband e.V.  
Representative of the Savings Banks

### Dr. Karsten von Köller

Member of the Board of  
Managing Directors of RHEINHYP  
Rheinische Hypothekbank AG  
Representative of the  
Mortgage Banks

### Ursula Konitzer

ver.di Bundesvorstand  
Representative of the Trade Unions

### Christiane Krajewski

Senator of Finance of the  
State of Berlin  
Member appointed by  
the Bundesrat (Upper House)  
(from Sept. 27, 2001 to Jan. 16, 2002)

### Renate Künast

Federal Minister of Consumer  
Protection, Food and Agriculture

### Peter Kurth

Senator of Finance of the  
State of Berlin (ret.)  
Member appointed by  
the Bundesrat (Upper House)  
(until June 16, 2001)

### Hartmut Perschau

Mayor of the Free  
Hanseatic City of Bremen  
Member appointed by  
the Bundesrat (Upper House)

### Heinz Putzhammer

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

### Dr. Michael Rogowski

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

### Hanns-Eberhard Schleyer

Secretary-General of the Zentral-  
verband des Deutschen Handwerks  
Representative of the Crafts

### Dr. Franz Schoser

Managing Director of the  
Deutscher Industrie- und Handelstag  
Representative of Industry

### Dieter Schulte

Chairman of the Deutscher  
Gewerkschaftsbund  
Representative of the Trade Unions

### Gerhard Sonnleitner

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

### Peer Steinbrück

Minister of Finance of the  
State of North Rhine-Westphalia  
Member appointed by  
the Bundesrat (Upper House)

### Erwin Teufel

Minister President of the  
State of Baden-Württemberg  
Member appointed by  
the Bundesrat (Upper House)  
(since Jan. 1, 2002)

### Dr. Bernd Thiemann

Chairman of the Board of Managing  
Directors of Deutscher Genossen-  
schaftsbank AG (ret.)  
Representative of the Cooperative  
Banks  
(until Dec. 31, 2001)

### Dr. Alexander von Tippelskirch

Spokesman of the Board of  
Managing Directors of IKB Deutsche  
Industriebank Aktiengesellschaft  
Representative of the Industrial  
Loan Banks

### Jürgen Trittin

Federal Minister of the Environment,  
Nature Protection and Reactor Safety

### Dr. Werner Upmeier

Chairman of the Bundesverband  
Freier Wohnungsunternehmen e.V.  
Representative of Housing  
(until Dec. 31, 2001)

### Heidemarie Wiecezorek-Zeul

Federal Minister of Economic  
Cooperation and Development



## *Dear Readers,*

KfW can look back on another successful business year. Above all, it was a year in which in many respects the signals were set for the future direction of the bank. Most important was the procedure by the European Commission in regard to the government institutional guarantees for the German promotional banks, that is, the Federal Government's institutional liability (*Anstaltslast*) and refinancing guarantee for KfW. In the second half of the year intensive negotiations took place on this with the Directorate-General for Competition, which we were able to conclude satisfactorily in March 2002 together with the Federal Ministry of Finance and the German Association of Public Sector Banks.

The most important results of the agreements are that the European Commission confirms the Federal Government's refinancing guarantee and the *Anstaltslast* for KfW and has recognized the bank's promotional tasks in Germany and abroad. This also applies to syndicate export finance, while the rest of export and project finance must be handled in a legally independent bank from December 31, 2007 at the latest. With this new

corporate structure we will be able to support the German and European economies as before, using KfW's whole range of instruments in future as well, albeit in two institutions within one group.

However, we already formed the KfW Group in 2001. With the takeover of DEG (Deutsche Investitions- und Entwicklungsgesellschaft), which we acquired from the Federal Government in June, DEG became an independent subsidiary under the umbrella of the KfW Group. The successful integration of DEG will help to increase the efficiency of German development cooperation. KfW and DEG can now work together with the developing countries in both the public and the private sector.

The other important strategic decision was the acquisition of 33.2% of the shares in IKB Deutsche Industriebank in November 2001. This has secured the strategic direction and focus of IKB on long-term SME lending and so set another important signal for the promotion of small and medium-sized firms. As partners for SMEs both banks will strategically expand their cooperation to help small and medium-sized firms over the long term.

## THE COURSE OF BUSINESS IN 2001.

The past year has again made clear how far-reaching are the changes to which banks and companies must adjust now and in future. Essential features of the financial system that has developed in our country, like the marked orientation to the banks and the traditional reliance on debt financing, are becoming less and less important. At the same time the German banks, that have clearly less earnings power than their Anglo-Saxon competitors, are repositioning themselves in international competition. In addition, the Basel II regulations that are now taking shape will make it more difficult for small and

medium-sized firms to maintain their market positions. All these developments will lead to deterioration in the financing conditions for the SME sector.

Hence in 2001 as well one of our major challenges was to ensure that in all these dynamic developments the financing needs of small and medium-sized firms were not lost to view. New, up to date promotional products need to be created that are interesting for companies and for banks. Our activities in securitizing credit risks are a central instrument in this. We buy risk portfolios from banks and in doing so ease their

capital charge – to the advantage of the companies as this creates "room" for new loans to SMEs. We then place the risks we have assumed on the capital market. These programmes give the companies indirect access to the capital markets. Our securitization platforms "Promise" and "Provide" have been very successful in the market. Altogether last year transactions to a total volume of EUR 5.2 billion were made.

The 2001 business year was better than had been expected for KfW in other promotional areas as well. Despite weaker economic activity investment finance was increased by 9% from the previous year, and loans totalling EUR 22.8 billion were committed for small and medium-sized firms, housing, the municipal infrastructure and environmental protection. However, the composition of the commitments developed contrary to our expectations. Private home ownership showed a welcome increase with commitments of EUR 6.3 billion, while commitments in the classical SME lending area declined slightly to around EUR 6.6 billion.

In export and project finance business was normalized on a high level in 2001 after the extraordinary results of past years, with commitments totalling EUR 8.4 billion. This result is very satisfactory in view of the worldwide cyclical downswing and the consequences of the attacks on September 11. In development cooperation KfW gave commitments totalling EUR 2.8 billion last year. An essential objective of our commitment is poverty alleviation. Development policy oriented to combating poverty can help to open up better prospects for groups that are vulnerable to radicalism. For that reason KfW very quickly, in December 2001, joined the relief work in Afghanistan. KfW's commitment under the Stability Pact for Southeast Europe has also helped to bring real improvements in the living

conditions for the people there and so helped to stabilize the region.

KfW's promotion of environmental protection measures showed a remarkable development last year – in Germany and in development cooperation and export finance. For projects that actively serve national and international environmental and climate protection we committed EUR 5.6 billion last year, which is around 16% of our total commitments. It is an increase of 23% over 2000. Our new environmental management system has proved its worth and is being constantly refined. As an example we can name the new environmental guideline for KfW export finance, which is now recognized as a model.

In January 2001 we put our funding on an entirely new basis. Our new strategy, the centrepiece of which is a new € benchmark programme, was received in the markets with a very positive response. We were able to convince investors and banks worldwide that our benchmark issues are a surrogate for government bonds, and so we were able to raise a record volume of EUR 38.6 billion. We shall build up on this success in 2002 with a new US dollar programme.

The discussions on Basel II were the starting signal for us to initiate an extensive internal project to reorient our risk steering and set up the Risk Management department. We want to expand our infrastructure into an active risk management and so create greater transparency on earnings, costs and risks in our portfolio.

The overall result is satisfactory. The Group balance sheet total has risen strongly to EUR 246 billion. The income from operations is up on the previous year and has enabled us to make appropriate provision for the higher risks.

We have shown the most important events of 2001 in calendar form on pages 13–37.

#### OUTLOOK.

Implementing the agreement with the European Commission is our central concern in the development of the KfW Group this year. We shall now prepare the legislative process to anchor the promotional tasks in the KfW Law in conformity with EU requirements. Parallel to this we shall start to develop business models for the future KfW subsidiary. Altogether KfW is increasingly oriented towards Europe, not least because this is requested by the European Commission.

We intend to direct our strategic partnership with IKB into concrete projects. We shall always be concerned to ensure that these do not affect competition. In conjunction with IKB we want to be a partner for SMEs and ensure the supply of long-term finance. In addition, we shall continue to advance and expand our securitization activities. Global loans are to supplement these as a central instrument. With this combination of products we hope to offer the banks a high degree of flexibility, simpler handling and a reduced capital charge on loans. By developing instruments for the risk-oriented calculation of margins we also want to ease the consequences of Basel II and secure corporate finance for the future.

Altogether we are expecting our programmes for investment finance in Germany to show a similarly high level of commitments in the current year to last year. Export and project finance will continue to be affected by the economic situation, so that we will have to expect a slight decline in commitments figures. In development cooperation our contributions to alleviating poverty will again be in the foreground this year. In this field we are expecting a volume of business of EUR 1.5 billion for 2002.

For KfW and the men and women who work in our bank the agreement with the European Commission means long-term future security. In order to be able to continue to perform our promotional work we must and will change much. That is our main task for the immediate future. We shall accompany that process with the new corporate model, the KfW Compass, that was completed at the start of 2002. The "new KfW" will build on the values that have always distinguished the bank and it will also point a way into the future, in which the bank intends to take the offensive in facing up to the changing customer and market demands. More information on the KfW Compass can be found on p 38.

Frankfurt am Main, May 2002

*Yours faithfully*  
*The Board of Managing Directors*

# KFW IN 2001.

## SURVEY OF THE MOST IMPORTANT EVENTS.



View of the banking hall in KfW's Berlin Branch after restoration.

# KFW IN JANUARY 2001.

## For the benefit of the environment.

As part of its activities for the environment KfW starts a new CO<sub>2</sub> Building Rehabilitation Programme.

## Eyes on the future.

As a successful newcomer in a market of the future Impella Cardiotechnik AG has been awarded the German Industry Innovation Prize for Start-Ups sponsored by KfW.

## Progress for all.

The 3rd Berlin Expert Talks on Globalization discussed the opportunities for the developing countries created by the information and communications technologies.

## BUILDINGS RENOVATED WITH THE HELP OF KfW PROVIDE CLEANER AIR.



Environmental protection plays an important part for KfW as a promotional bank. With its programmes and projects to reduce harmful emissions and preserve resources the bank has made an essential contribution in the past to improving the environmental situation in the Federal Republic of Germany. With its new CO<sub>2</sub> Building Rehabilitation Programme it is extending its environmental activities. The programme is part of the national Climate Protection Programme

### Drinking water for Albania.

In the Albanian town of Elbasan clean water is in short supply. Berlinwasser International is renewing the derelict water supply system with KfW promotional funds.

### More successful together.

KfW and DtA have signed a funding agreement. Both promotional banks will profit from appearing as a single issuer in the capital market.

### Creating new jobs.

With the new variant of its Programme for Small and Medium-Sized Enterprises, "Employment and Qualification", KfW is promoting companies throughout Germany that are creating new jobs.

## KFW BRINGS CLEAN WATER TO ALBANIA.



passed by the Federal Cabinet. With loans at reduced interest rates the programme offers greater incentives to take steps to reduce emissions, like installing energy-saving heating or improving thermal insulation. Renovating large panel buildings in the new federal states is a major part of the programme.

# KFW IN FEBRUARY 2001.

## Windmills by the Red Sea.

KfW is supporting the Egyptian Government in the use of wind power.

## Start-up help in Ukraine.

With the help of KfW the Microfinance Bank of Ukraine is starting to operate. A main part of its activity will be promoting small and medium-sized firms.

## Home ownership for railway workers.

The privatization of railway workers' homes in Germany is complete and now KfW is helping the tenants to buy them.

## KFW BRINGS A FRESH WIND TO EGYPT.



There is no lack of strong winds in Zafarana on the Red Sea. On the contrary, the winds there are so strong that the region is regarded as one of the best in the world for wind power. To open up that enormous potential KfW is financing the construction of a wind park in Zafarana. In future the windmills will cover the annual electricity consumption of more than 170,000 Egyptian households. At the same time the electricity, which is produced without harmful emissions, will reduce



### Exporting the Transrapid to China.

A Transrapid line is being built in China from Shanghai to the airport at Pudong. KfW is providing financial support for the export of the Transrapid.

### More electricity for Sri Lanka.

KfW is supporting the Sri Lankan Government in improving electricity supplies in the Greater Colombo district.

### Support for Georgia.

The Microfinance Bank of Georgia receives its first promotional loan from KfW. With this commitment KfW is supporting Georgia on its way into the market economy.

## KFW SPEEDS UP IN CHINA TO MORE THAN 400 KM/H.



CO<sub>2</sub> emission in Egypt by 190,000 tonnes a year. So the Zafarana wind park will make an important contribution to regional and global climate protection.



# KFW IN MARCH 2001.

## Success story on the high seas.

KfW is financing the construction of innovative club cruise vessels at the Aker MTW yard in Wismar.

## A new start on combating poverty.

KfW and Syria have signed a consolidation agreement and so created the basis for the resumption of Financial Cooperation to alleviate poverty in Syria.

## Making telephoning easy.

KfW is financing an underwater cable ring to extend the telephone network in the Caribbean. It will link the United States with 13 countries in Central America, South America and the Caribbean.

## KFW SAILS IN A NEW STYLE.



Up to now cruises have been regarded as elitist, expensive and boring. The AIDA club ships intend to put an end once and for all to these prejudices. They are opening up a new era in sea cruising, for they are more like a swimming holiday club than a ship. Instead of dinner jackets and evening dress they offer a mixture of light activity holiday and exclusive luxury hotel. They have bars, discos, theatre shows, fitness and wellness landscapes, and sport, fun and games are available



### New approaches to combating Aids.

With the threat to Africa from Aids new strategies were discussed at the KfW Aids Conference. The bank itself is relying on information and prevention with considerable success.

### In the fight against illegal drugs.

KfW and the Government of Peru have agreed on debt conversion to finance agricultural projects and help farmers stop growing crops for the drug trade.

### Extremely successful issue.

With its new € Benchmark Programme KfW exceeded all expectations, establishing its issues as a true alternative to government bonds.

## KFW WILL NOT GIVE UP THE STRUGGLE.



in plenty on board. The idea has been so successful that the Aker MTW Yard in Wismar is already building the third "dream ship" in the AIDA class with financial support from KfW.

# KFW IN APRIL 2001.

## Conserving nature.

The first national park in Georgia is being opened with financial support from KfW.

## New incentives to use solar energy.

KfW has simplified its 100,000 Roofs Solar Power Programme. Commercial and private applicants now receive equal treatment, and this has made the programme more customer-friendly.

## SME promotion in Poland.

KfW has granted a credit line to the Polish environmental bank BOS, and so it is supporting lending to small and medium-sized enterprises.

## KFW IS WORKING WITH COMMITMENT FOR NATURE IN GEORGIA.



Plants not to be found anywhere else. Animals, like bears and wolves, that are otherwise only to be found in zoos. The mountainous country near the town of Bordshomi in Georgia is one of the most precious natural treasures on earth. But it is under threat. As the Georgian economy declined the rape of nature began. People who are starving and freezing do not have scruples about ecology. So KfW is not only helping to set up a national park, it is also helping to create



### Innovative in the quest for capital.

More than 50 innovative companies are looking for equity participation in the German Equity Forum. This contact exchange is organized by KfW and Deutsche Börse.

### A new bank opens in Serbia.

The Serbian Microfinance Bank has started operating. It is receiving financial support from KfW to promote private enterprise in Serbia.

### Workshops for the EU.

KfW and DtA have started a series of workshops in Brussels, inviting representatives of the European Commission to inform them of current promotional themes.

## COMPANIES SEEKING EQUITY CAPITAL COME TO KfW.



new jobs in the region, for where there is poverty nature can only be successfully protected if there is economic promotion as well.

# KFW IN MAY 2001.

## New Ideas for Basel II.

KfW contributes its SME know-how to the discussion on Basel II and proposes modifications.

## On the way into the future.

KfW is looking for a new corporate model to meet the challenges of the future, and starts an intensive development process for this.

## Regional promotion in Great Britain.

Barclays Bank receives a global loan from KfW to promote small and medium-sized firms in regions in Britain that are among the poorest in the EU.

## SMES ARE SAFE WITH KFW.



Improving the stability of the financial system and preventing crises in the banking system – that is the purpose of Basel II. Hence, in future the level of the banks' equity capital is to be judged mainly by the risks in their lending business. That means improving risk control, but it could also mean higher capital requirements for lending to small and medium-sized enterprises, and so in some cases it could lead to tougher financing conditions for SMEs. That is a development KfW certainly does not want to see. As Germany's leading promotional bank it works with



**Joint securitization transaction.**

Dresdner Bank and KfW jointly securitize credit risks. KfW also agrees similar transactions with other banks.

**Hope revives.**

Devastating earthquakes in El Salvador make one fifth of the population homeless. KfW starts a self-help programme to rebuild the houses that have been destroyed.

**Better telephone lines.**

KfW finances the export of telecommunications equipment to expand the telephone network in the north and east of Brazil.

**BANKS AND ENTERPRISES ARE SAFE WITH KfW.**



particular commitment for the justified interests of the SME sector. And in order to ensure the supply of debt capital and equity capital for small and medium-sized firms in future as well it is playing an intensive part in the discussion over Basel II. After all, small and medium-sized firms are the driving force of progress and innovation.

# KFW IN JUNE 2001.

## New Address in Berlin.

Federal Chancellor Gerhard Schröder opens the new KfW Branch on Gendarmenmarkt in Berlin.

## The start of the end of poverty.

1.2 billion people are now living in absolute poverty. In its Annual Report on Financial Cooperation with the Developing Countries for 2000 KfW presents its contribution to alleviating poverty.

## Pioneer in private tunnel construction.

In Lübeck KfW is playing a pioneering role in a privately financed toll tunnel project with an innovative financing model.

## KFW ENTERS NEW PREMISES IN BERLIN.



It took five years to complete the new KfW Branch in Berlin, but on June 11 it was officially opened. In his address the Federal Chancellor praised KfW's commitment in restoring the buildings on Gendarmenmarkt that are under preservation order. Extensive building and restoration work has been carried out to renovate the historical buildings, and the gaps in the block left by



**Strong partnership.**

KfW acquires the Federal Government's shares in DEG. It will use the strengths of its new subsidiary for effective promotion in development cooperation.

**Offices for around 300 of our staff.**

KfW lays the foundation stone for its new office building "Ostarkade" (East Arcade). In the plans it laid great stress on environmental and resource protection.

**A clean environment for Chile.**

KfW is cofinancing environmental investment by small and medium-sized enterprises in Chile to reduce emissions and waste

**KFW ACQUIRES A NEW SUBSIDIARY.**



the Second World War have been filled with new buildings. The result, as the Federal Chancellor confirmed, is a successful architectural interplay of old and new. It is a very great gain to the centre of Berlin.



# KFW IN JULY 2001.

## The end of the first half-time.

Munich Airport holds the roofing ceremony for its new Terminal 2.

## Successful continuance.

KfW's second € Benchmark bond issue is also meeting with great interest from international investors; it is clearly over-subscribed.

## Drinking water for Dakar.

The World Bank, Agence Française de Développement, the European Investment Bank and KfW are financing an ecologically viable drinking water supply system in Senegal.

## KFW GIVES NEW IMPETUS TO AIR TRAFFIC IN MUNICH.



This is a world premiere in the history of international air traffic. For the first time an airport and an airline have cooperated in building and operating a terminal. This joint project by Munich Airport and Deutsche Lufthansa is being supported by KfW, but it will be one and a half years before the present building site for Terminal 2 is transformed into a pulsating turntable for air traffic. Then up to 25 million passengers a year can be handled here.



#### New service on the Internet.

By using a free online calculator home owners and builders can obtain individual repayment schedules for KfW loans for the construction and modernization of buildings.

#### Three times more than before.

For the first time KfW's revised website had more than one million pageviews per month. The figure has tripled since the relaunch.

#### An office opened in Hanoi.

KfW's Hanoi office has started work. Building up this office is an important step in intensifying German-Vietnamese cooperation.

### KFW INTERACTIVE IN THE NETWORK.



# KFW IN AUGUST 2001.

## Latin American partnership.

KfW grants the biggest newspaper publisher in Brazil a loan to expand his printing capacities.

## Stability for Southeast Europe.

GTZ, DEG and KfW open a joint office in Belgrade. The aim is to support the reform process in Serbia and help rebuild the country.

## Big demand.

As a result of the enormous interest in the KfW CO<sub>2</sub> Building Rehabilitation Programme more than a quarter of a billion euros in loans has already been granted.

## KFW HELPS TO EXPAND BRAZIL'S PRINTING CAPACITIES.



In 1925 Irineu Marinho founded the O Globo newspaper and so laid the foundation stone for a history of superlatives. The newspaper developed into one of the biggest media groups in Brazil, and the Globo Group now includes the biggest television network, and in Infoglobo, the biggest newspaper publisher in Brazil. In 1996 Infoglobo acquired one of the biggest printing works in Latin America. Then, with the help of KfW, MAN-Roland, the second largest producer of printing machines in the world, succeeded in selling six new printing machines to Infoglobo against



**Award-winning design.**

The German Designer Club gives this year's DDC Award to KfW's corporate design.

**Full finance for Bavaria.**

For the first time small and medium-sized enterprises in Bavaria can finance all their investment with attractive public loans from a single source.

**Learning while playing.**

KfW and ZDF, Germany's Channel Two television, launch the business simulation game "Schloss Lerchenberg" (Lerchenberg Palace) on the Internet. The aim is to encourage potential entrepreneurs to set up in business.

**KFW WINS WITH ITS NEW LOOK.**



fierce competition from the United States. It was the start of a firm partnership between Infoglobo, MAN-Roland and KfW. KfW is again providing the finance for the present expansion of the printing capacities.

# KFW IN SEPTEMBER 2001.

## New Ways of Protecting the Climate.

New instruments to protect the world's climate are discussed at the KfW conference on "Tradeable Certificates in Climate Protection".

## Preparing for entry.

KfW promotes small and medium-sized enterprises in Lithuania with a credit line to the Sampo Bank; it is part of the SME finance facility of the EU for candidate countries.

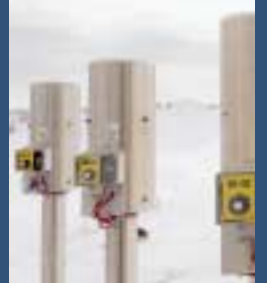
## A platform for innovation.

Deutsche Börse and KfW have set up a German Equity Forum in Leipzig, where innovative companies can present themselves to international investors.

**KFW WORKS FOR A BETTER CLIMATE.**



The research results prove it. The Kyoto Protocol points the way. Climate protection is one of the central tasks for the future. But the traditional instruments of environmental policy are not enough. Many countries have therefore started to build up systems of tradeable emission rights, marketable emission certificates or green certificates for electricity from renewable energies. But how can the new certificate systems be used successfully? That was the subject of KfW's



### Alleviating Poverty in Asia.

Poverty is a mass phenomenon in Asia. At the conference on "Infrastructure and Poverty Reduction in Asia" KfW and the Asian Development Bank discussed measures to combat poverty.

### China faces great challenges.

KfW and the Chinese Ministry of Finance hold a symposium to reform the banks in China.

### Protecting the variety of species.

KfW is supporting the merger of the national parks in South Africa and Mozambique. This will benefit not only the animals but the people in the region as well.

## KFW COMBATS POVERTY IN ASIA.



conference on "Tradeable Certificates in Climate Protection". KfW intends to concern itself more with this instrument in future and is now working on a number of financing concepts.

# KFW IN OCTOBER 2001.

## A Realm for Animals.

The WWF South Africa awards KfW a gold medal for its outstanding contribution to nature preservation.

## Help for the poorest of the poor.

As the war in Eritrea ends KfW resumes its development cooperation with Ethiopia. Food supplies are a major concern.

## Innovative ways of generating electricity.

KfW is supporting India in the construction of a solar thermal power station at Mathania. With on average 320 days of sunshine a year this desert town is an ideal location.

## WWF SOUTH AFRICA HONOURS KFW.



In the next few years the biggest nature park in Africa will be created between South Africa, Mozambique and Zimbabwe. It will be known as the Peace Park. This transnational nature reserve will be the biggest "realm for animals" in the world. The project is also receiving financial support from KfW, for the bank is committed, among other things, to building up the Southern Wildlife College. The College is located on the western edge of the Kruger National Park and it trains park rangers from nature reserves in Southern Africa to work as qualified park managers. They learn to manage the protected areas in their homelands in a sustainable way and in cooperation



### Appraising the results.

KfW presents the sixth report on the results of Financial Cooperation with developing countries. 76% of the promotional funds were used in successful projects.

### Promoting SMEs in the Czech Republic.

KfW grants the Czech promotional bank CMZRB the first credit line. The Czech Republic is a candidate for entry to the EU and these funds are to strengthen the SME sector.

### An essential element in funding.

KfW floats its third € Benchmark bond issue on the market. Like the two previous issues it is also greatly oversubscribed.

**KFW CAN BE PROUD OF ITS SUCCESS RATE.**



with the local communities. KfW sees this as an important contribution to the preservation of nature and to the economic development of the region. The WWF South Africa honoured the bank's commitment by awarding it the gold medal.



# KFW IN NOVEMBER 2001.

## A good response.

100,000 home builders realize their dream with a low-interest KfW loan.

## A rapid catching-up process.

KfW presents a study of the economic development in the regions of eastern Germany since reunification. The bank has worked with commitment and success in the new federal states right from the start.

## Much better than expected.

The 100,000 Roofs Solar Power Programme is a complete success. The target for the year was already exceeded in October.

## KFW MAKES A HUNDRED THOUSAND DREAMS COME TRUE.



For many people living within their own four walls one day is right at the top of the wish list. When it granted the 100,000th loan under its Home Ownership Programme in 2001 KfW had made this dream come true a hundred thousand times. Under this programme KfW supports the building and purchase of homes and apartments for owner-occupiers. Up to 30% of the total costs can be cofinanced by KfW in this way. KfW is making a considerable contribution to



### Strategic takeover.

KfW acquires 33.2% of the shares in IKB Deutsche Industriebank. The two banks will build up a strategic partnership for the SME sector.

### The third largest lender.

KfW grants a loan to support the Poverty Alleviation and Growth Facility administered by the IMF.

### Electricity at competitive rates for Panama.

By financing a merchant power plant KfW is supporting the construction of a power station in Panama; here it is also bearing the market risk for the first time.

## KFW TAKES THE OPPORTUNITY TO FORM A PARTNERSHIP.



increasing the rate of home ownership in Germany with this promotional programme, and so the bank is taking due account of the importance of home ownership in wealth creation policy as a means of making private provision for old age.

# KFW IN DECEMBER 2001.

## Warm praise.

KfW is honoured with four awards by the International Financing Review.

## On the right course.

KfW has given itself a new corporate model in the KfW Compass. The name is programmatic: the KfW Compass points the way into the future for the promotional bank.

## Joint venture in steel.

KfW and EIB are financing the construction of a cold rolling mill in the south of Brazil. The plant will process steel.

## KFW VOTED ISSUER OF THE YEAR.



KfW has been given four awards at once by the International Financing Review, a financial journal renowned worldwide. For its new € Benchmark Programme, and for the good preparation of the first € Benchmark issue and the reliability of the issuer, KfW is voted "Issuer of the Year", "European Issuer of the Year", "Issuer in the Category 'Agency' of the Year" and "Issuer of the Agency Bond



### Help for Afghanistan.

KfW and GTZ set up an office in Kabul and prepare assistance for the reconstruction of Afghanistan.

### A chance to use the sun.

KfW and EUROSOLAR award the European Solar Prize to eleven projects that are regarded as exemplary in the use of solar power.

### New hope after the war.

After 20 years of war Afghanistan's infrastructure is in ruins. KfW is starting a reconstruction programme on behalf of the Federal Government.

## KFW IS SUPPORTING THE RECONSTRUCTION OF AFGHANISTAN.



of the Year". The awards also honour the bank's introduction of PROMISE, its programme to securitize the risks of SME loans, and its important contributions to the consultations on Basel II.

## KFW GIVES ITSELF A MODEL FOR THE FUTURE.

### IN TIMES OF CHANGE.

A forward-looking corporate model is particularly necessary in times when general conditions are changing. An institution like KfW, with ambitious goals for the future, needs a compass to reach them, and KfW's new model is such an instrument.

The "KfW Compass", as it is indeed called, is a navigation aid and a means of identifying the position in one. It points the course to the chosen goal, but it also shows where KfW stands today.

### BANKER AND PROMOTER IN ONE.

A promotional bank incorporated under public law is today judged in many respects by the same standards as a successful commercial bank. In future KfW must become even more efficient, transparent and fast. This means that we must work continuously at optimizing our processes. But with all the changes we will not lose sight of our promotional task. We must be an efficient banker and a long-term promoter at once.

We have succeeded in that in the past. KfW can look back on more than 50 years of successful history. But if we are to be successful in future as well all our efforts must now be focussed on the future. For that reason the KfW Board of Managing Directors decided in spring 2001 to give the bank a new corporate model; it was to be not so much a description of the current state as a mandate for mobility.

### A CHALLENGE TO ALL.

A successful model is certainly not a ready-made garment off the peg. It has to be created out of the organization. It must be neither a list of demands imposed from above nor a minimal consensus achieved through basic democracy which everyone can accept without hesitation because it does not contain any real demands.

KfW's new model is therefore the result of an intensive process of evolution in which all the men and women on our staff, right through all levels of hierarchy, were involved. Anyone who wished could incorporate his or her ideas and concerns in the model-building process.

### A TEXT WITH SOME SHARP EDGES.

The KfW Compass emerged from constructive discourse. Differences of opinion were not evaded, they were seen as enrichment. So in the course of time a clear, demanding and in some parts actually provocative text evolved in which every man and woman on our staff is challenged to

question his or her behaviour and favourite habits, but also proven methods and approaches, and appraise their efficiency.

The visions, tasks and values in the KfW Compass will provide enough material for intensive and constructive discussions in future, too.

#### NOT EMPTY WORDS.

A clearly formulated model is only the beginning, and we certainly must not stop there. Otherwise the text is just non-committal words in a glossy brochure. For a model does not work on paper, it works within the people who fill it with life day by day.

#### THE COMPASS COMPETITION.

An important objective of the model is to optimize the internal processes. In order to achieve that all the men and women on KfW's staff are asked to put forward suggestions for improvement. The internal suggestions system that already exists is therefore to be modernized to suit the model.

#### PUTTING THE MODEL INTO PRACTICE IN THE DIFFERENT BUSINESS AREAS.

As the work processes and channels of communication differ greatly in the various areas of our business there cannot be centralized instructions for implementing the model. The model will therefore be concretized in the individual areas of business by the member of the Board of Managing Directors in charge of that area, in cooperation with his or her heads of division and department, and all the other members of the staff.

#### NEW CHANNELS OF COMMUNICATION.

A central theme of the model is to intensify the internal dialogue right through all the levels of hierarchy. For this, new platforms of communication will be created which KfW has not had before. In spring 2002 the Board of Managing Directors started "workshop talks" in which each member of the Board of Managing Directors will in future discuss subjects relevant to the bank with the staff in an entirely new form.

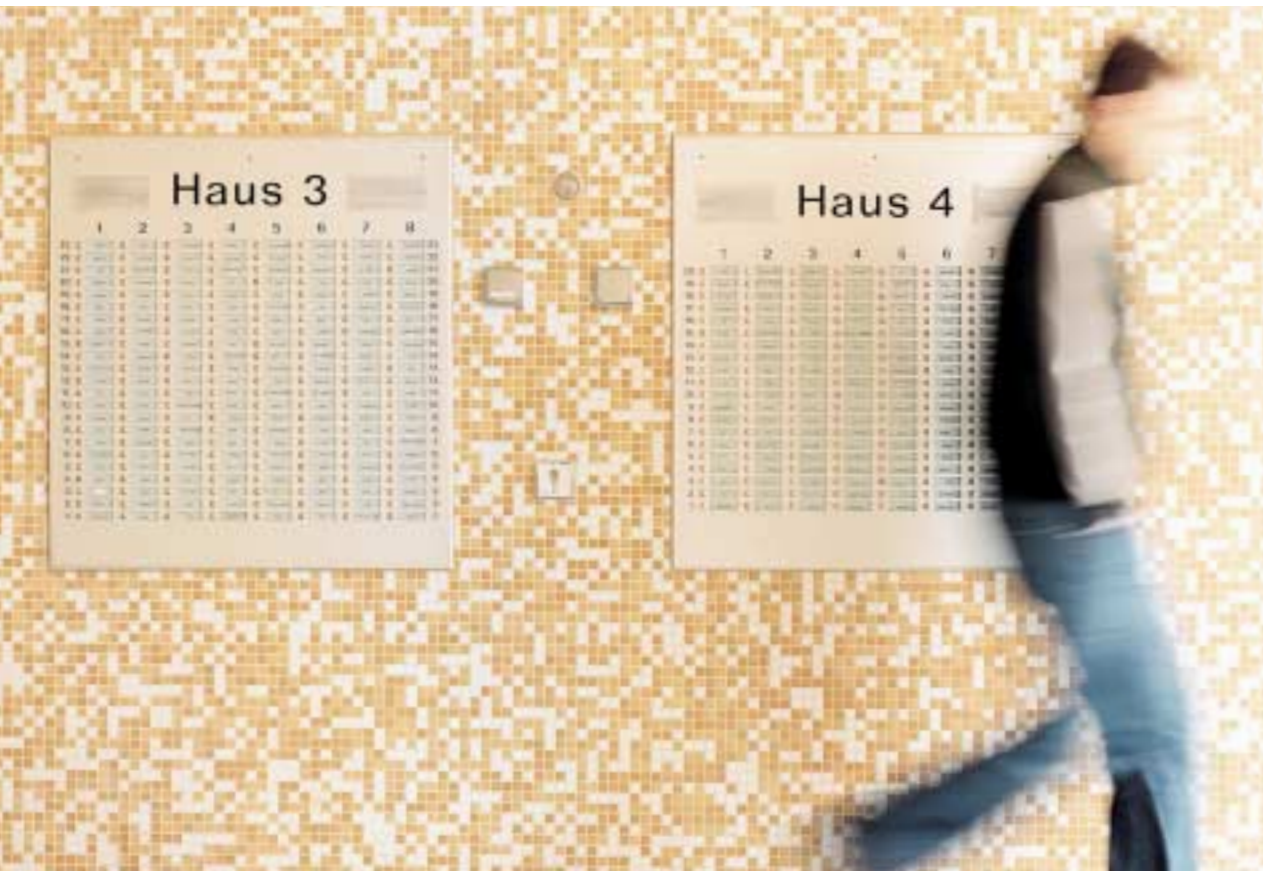
#### OPEN TO CHANGE.

The process of evolving the model is by no means concluded now that the KfW Compass has been formulated. Just as KfW reacts to changes and itself is constantly changing, the model will also be continuously developed. Progress will be assessed in an ongoing process and the model will be adjusted to new requirements.

More information on how KfW sees its position and its work is available under [www.kfw.de](http://www.kfw.de). You can download the KfW Compass as a PDF file by clicking "Die Bank"; or you may prefer to send an e-mail to [info@kfw.de](mailto:info@kfw.de) and ask for our Compass brochure.

# INVESTMENT FINANCE.

STIMULUS FOR THE ECONOMY -  
KFW INCREASES ITS PROMOTION.

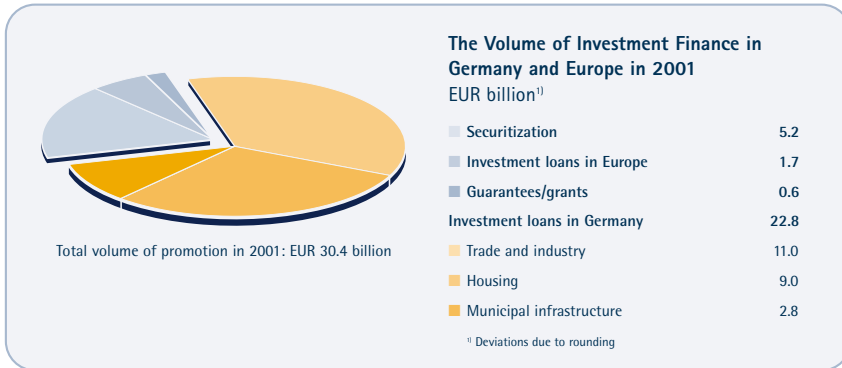


## PROMOTING INVESTMENT IN GERMANY AND EUROPE.

The volume of promotion for the German and the European economies amounted to EUR 33.7 billion in 2001 and was thus around 13% higher than in the previous year.

Again domestic investment loans accounted for by far the greater part of the promotion, with commitments totalling EUR 22.8 billion. Investment loans to other European countries accounted for a further EUR 1.7 billion, while securitizations added a further EUR 5.2 billion to the total volume of promotion. Securitizations showed the strongest increase, rising by nearly 50%.

Of the loans serving to promote investment in Germany, trade and industry (SMEs and the environment, including project finance in Germany) accounted for about half of the volume of commitments. The programmes for the housing sector met with strong demand and accounted for around 40% of the total volume, while the programmes for infrastructure promotion were able to maintain their share of a good 10%.





**Promotion of the German and European Economies<sup>1)</sup>**  
Commitments in EUR million

| Programme   | 2000           | 2001           | Purpose  |
|---|----------------|----------------|--|
| <b>I. Loans to the domestic economy</b>                       |                |                |  |
| <b>1. Small and medium-sized enterprises</b>                  | <b>7,536.0</b> | <b>6,629.3</b> |  |
| <b>a) KfW programmes</b>                                      | <b>5,692.3</b> | <b>5,476.3</b> |  |
| ■ Small and Medium-Sized Enterprises                          | 5,050.4        | 5,108.6        | SME finance in Germany (of which in 2001: EUR 322.9 million for qualification and employment)  |
| ■ KfW/BMWi Technology Participation Programme                 | 248.7          | 74.7           | Participations in small technology-based firms   |
| ■ Venture Capital Programme (finance for participation funds) | 298.0          | 162.7          | Participations in enterprises through venture capital funds financed by KfW  |
| ■ Participation Fund (East)                                   | 57.2           | 24.0           | Participations in enterprises in the eastern federal states  |
| ■ Acquisition Finance   | 38.0           | 106.3          | Finance for company takeovers (test phase)   |
| <b>b) ERP Programmes</b>                                      | <b>1,787.4</b> | <b>1,153.0</b> |  |
| ■ ERP Regional Promotion Programme                            | 983.0          | 528.3          | Investment in the regions receiving aid under the "Joint Task for the Improvement of the Regional Economic Structure"  |
| ■ ERP Innovation Programme                                    | 639.0          | 448.6          | Market-oriented research and development and the marketing of innovations  |
| ■ ERP Participation Programme                                 | 104.8          | 122.5          | Participation in enterprises by private equity investment companies  |
| ■ ERP Loans to Guarantee Banks                                | 60.6           | 53.6           | Funds for guarantee banks  |
| <b>c) Other federal Funds</b>                                 | <b>56.4</b>    |                |  |
| ■ KfW Investment Programme for Coal Mining Districts          | 56.4           |                | Investment and other measures to increase the supply of jobs in the coal mining districts  |
| <b>2. Housing</b>   | <b>5,089.6</b> | <b>8,983.9</b> |  |
| ■ KfW Housing Modernization Programme (East)                  | 1,299.1        | 749.9          | Modernization and renovation of housing in the eastern federal states  |
| ■ KfW CO <sub>2</sub> Reduction Programme                     | 925.3          | 1,962.4        | Investment to reduce CO <sub>2</sub> emission and save energy in residential buildings (of which in 2001: EUR 424.6 million under the 100,000 Roofs Solar Power Programme, EUR 123.7 million under the KfW Programme for Renewable Energies) |
| ■ KfW Programme to Promote Home Ownership                     | 2,865.1        | 6,271.4        | Construction and purchase of owner-occupied housing  |
| <b>3. Municipal Infrastructure</b>                            | <b>2,760.0</b> | <b>2,796.5</b> |  |
| ■ KfW Infrastructure Programme                                | 2,753.9        | 2,792.7        | Municipal infrastructure measures  |
| ■ Sewage Treatment Saxony-Anhalt                              | 6.0            | 3.8            | Sewage treatment projects in Saxony-Anhalt   |

<sup>1)</sup> Differences in the sums due to rounding

(cont.)

| Programme   | 2000            | 2001            | Purpose  |
|---|-----------------|-----------------|--|
| <b>I. Loans to the domestic economy</b>                         |                 |                 |  |
| <b>4. Environmental Protection</b>                              | <b>585.1</b>    | <b>802.7</b>    |  |
| ■ KfW Environmental Protection Programme                        | 585.1           | 802.7           | Environmental protection projects                              |
| <b>5. Project finance in Germany</b>                            | <b>4,860.8</b>  | <b>3,457.6</b>  | I.a. energy and transport projects                             |
| <b>6. Other structural measures</b>                             | <b>223.3</b>    | <b>175.4</b>    |  |
| ■ Special loans   | 221.8           | 175.0           | Investment   |
| ■ KfW Special Programme for the Old City of Quedlinburg         | 1.1             | 0.1             | Renovating buildings in the old city of Quedlinburg            |
| ■ KfW Rescheduling Programme                                    | 0.4             | 0.3             | Old claims due from the state budget of the former GDR         |
| <b>Total lending in Germany</b>                                 | <b>21,054.8</b> | <b>22,845.3</b> |  |
| Of which  |                 |                 |  |
| ■ KfW programmes  | 19,211.1        | 21,692.3        |  |
| ■ ERP programmes  | 1,787.4         | 1,153.0         |  |
| ■ Other federal funds   | 56.4            |                 |  |
| <i>Memo item: Total promotion in the eastern federal states</i> | <i>4,104.1</i>  | <i>3,911.5</i>  |  |
| <b>II. Loans in Europe</b>                                      | <b>1,575.2</b>  | <b>1,749.3</b>  |  |
| ■ Global loans  | 1,263.5         | 1,465.7         | Global loans to promotional and commercial banks in Europe     |
| ■ KfW Programme for Small and Medium-Sized Enterprises Abroad   | 193.0           | 156.1           | SME finance abroad   |
| ■ KfW Environmental Protection Programme Abroad                 | 118.7           | 127.5           | Environmental protection projects abroad                       |
| <b>III. Other business</b>                                      | <b>856.6</b>    | <b>649.6</b>    |  |
| ■ Guarantees  | 739.2           | 581.1           | I.a. projects in the transport sector                          |
| ■ KfW Venture Capital Programme (Guarantees)                    | 12.8            | 8.4             | Securing participations by private equity investment companies |
| ■ Shipyard Assistance Programme/ Competition Aids (grants)      | 104.6           | 60.1            | Deliveries of ships to German buyers                           |
| <b>Total investment finance in Germany and Europe</b>           | <b>23,486.6</b> | <b>25,244.2</b> |  |
| <b>Securitization transactions</b>                              | <b>3,500.0</b>  | <b>5,198.0</b>  | <b>Securitization of promotional loans</b>                     |
| <b>Total volume of promotion</b>                                | <b>26,986.6</b> | <b>30,442.2</b> |  |

## NEW PROMOTIONAL INSTRUMENTS NEEDED FOR THE SME SECTOR.

The financing system in Germany is going through a period of far-reaching change. The reasons for this are globalization, deregulation, changes in investors' preferences and the new information and communications technologies. They are causing noticeably fiercer competition in the financial sector and this is putting the German banks in particular, which are traditionally low on profitability, under considerable cost and earnings pressure. Further factors are the decisions by the European Commission on institutional liability (Anstaltslast) and guarantees for the state banks (Land banks), as well as the Basel proposals for new regulations on equity capital requirements (Basel II). They are also contributing to the marked changes that are now taking place in the banking scene and in banking practices.

This is not without effect on finance for small and medium-sized enterprises. The new information and communications technologies have enabled the banks to calculate the costs, yields and risks of each individual commitment much more exactly than before, and with the increasing competition this is inducing them to improve their profitability by selecting new commitments according to the profits they generate. The classical promotional loan is coming under pressure, and KfW has therefore developed a range of measures to facilitate the appropriate promotion of small and medium-sized enterprises.

Some examples of these measures are the consistent use of modern information and communications technologies to reduce transaction costs, increasing our range of information and consultancy products and making our promotional programmes and instruments more flexible. However, KfW's promotional task is not limited to further developing the established channels of support, for as a result of the changing conditions in the financial markets new and interest-

ing structures and products have developed. In future the main concern will be how to use them intelligently for promotional purposes. "Second generation" promotional instruments are needed, to enable small and medium-sized enterprises as well to profit from these developments.

The securitization of promotional loans is a good example of this. KfW has created a platform to enable SME loans to be securitized relatively simply and cost-efficiently. This promotes the development of a liquid secondary market for these loans across a broad front. A secondary market of this kind helps to lower interest rates and this directly benefits the SME sector; structurally it benefits the economy as a whole. Through securitization the banks can save equity capital costs and reduce their risks, making this field of business more attractive to them once again. At the same time equity capital is released for further loans, and this in turn makes the banks more willing to lend. Securitization transfers the SME loan risk to institutional investors in the capital market, that is, loans to small and medium-sized firms become eligible for placement in the capital market by being combined in packages.

The success of KfW's securitization programme is due to the advantages for all involved. Once KfW had opened up this instrument for promotional work and securitized the first SME loans at the end of 2000 (under its PROMISE programme), the procedure was extended to promotional loans for the housing sector in 2001 (PROVIDE). The strong growth in the volume of transactions confirms that this instrument has met with broad acceptance in the market and that KfW has succeeded in evolving an important supplement to its range of promotional instruments. "Systemic" promotional approaches of this kind will play a much greater role in future.

## PROMOTING SMES IN GERMANY.

### SMALL AND MEDIUM-SIZED ENTERPRISES DEFY THE CYCLICAL DOWNSWING.

The economic development in the SME sector depends more on domestic demand than exports, and in the first three quarters of the past year it put up massive resistance to the global downswing. In the fourth quarter, however, the climate worsened here, too.

At around EUR 6.6 billion commitments under the programmes for small and medium-sized firms could not quite reach the previous year's result. Nevertheless, these programmes are the cornerstone of our SME promotion.

Investment totalling more than EUR 13.3 billion was made possible last year by promotional loans to small and medium-sized enterprises. This enabled around 570,000 jobs to become more competitive and less vulnerable to crises;

in addition, more than 42,000 new jobs were created. Another 560,000 jobs were secured by the effects of demand in trade and industry, the housing sector and municipal infrastructure - mainly in the building industry.

In the programmes to promote small and medium-sized enterprises around 27,000 loans were granted. Small and micro enterprises in particular benefited from these, for 88% of the companies supported have an annual turnover of less than EUR 5 million. But precisely these companies create a disproportionately large number of jobs. Moreover, they are especially innovative and so make a decisive contribution to structural change.

**Programmes for Small and Medium-Sized Firms 2001<sup>1)</sup>**

| Programmes   | Loan commitments |                | Volume of investment promoted<br>EUR million | Number of jobs in firms promoted |               |
|--|------------------|----------------|--|----------------------------------|---------------|
|  | Number           | EUR million    |  | Existing                         | New           |
| ERP Regional Promotion Programme                       | 3,363            | 528.3          | 1,148  | 54,800                           | 4,050         |
| ERP Innovation Programme                               | 345              | 448.6          | 1,005  | 70,200                           | 3,100         |
| KfW Programme for Small and Medium-Sized Enterprises   | 22,295           | 5,108.6        | 9,400  | 424,800                          | 32,400        |
| Other programmes for small and medium-sized firms      | 891              | 543.8          | 1,703  | 20,700                           | 2,900         |
| <b>All programmes for small and medium-sized firms</b> | <b>26,894</b>    | <b>6,629.3</b> | <b>13,256</b>                                | <b>570,500</b>                   | <b>42,450</b> |

<sup>1)</sup> Not incl. investment abroad. For projects funded under more than one programme investment and jobs are only counted once.

#### PROGRAMMES FOR SMALL AND MEDIUM-SIZED ENTERPRISES.

Continuity and New Priorities in KfW's Programme for Small and Medium-Sized Enterprises.

KfW's Programme for Small and Medium-Sized Enterprises was the dominant element in the bank's promotion of SMEs in 2001 as well. Although investment in the economy as a whole was declining commitments remained unchanged from the previous year at more than EUR 5.1 billion. The programme proved a stable and reliable instrument of structural policy in a difficult economic environment.

Since September 2000 the Programme for Small and Medium-Sized Enterprises has had a special variant, "Employment and Qualification". This enables the intangible investments involved in the creation of jobs and the basic or advanced training of employees to be promoted. This variant has quickly and successfully established itself in the market with commitments for EUR 323 million in 2001. It is an important addition to our range of promotional products, particularly for companies in the new economy.

#### EXPANDING THE PROMOTIONAL PACKAGE FOR CORPORATE TAKEOVERS.

Corporate takeovers will play a much greater role in the SME sector in future. This will be due to the coming change in generations and the growing pressure of competition, that will encourage the formation of larger units.

Smaller corporate takeovers could be promoted before under the KfW Programme for

Small and Medium-Sized Enterprises. In 2001 a concept for the financing of larger acquisitions was developed and tested. A further building block is an offer of equity capital (private equity). The combination will result in a highly flexible and attractive offer of finance.

#### THE IMPORTANCE OF THE ERP PROGRAMMES REAFFIRMED.

Altogether during the past year loans totalling EUR 1.2 billion were provided from the ERP Special Fund. The ERP programmes are used to promote regional development, innovation and participation financing, and to fund guarantee banks.

In volume the ERP Regional Promotion Programme was the most important with com-

mitments of EUR 0.5 billion. It was created at the start of 2001 by merging the ERP Reconstruction Programme and the ERP Regional Programme. The ERP Regional Promotion Programme serves the improvement of the regional economic structure in the regions receiving support under the Joint Task.

## INNOVATION AND PARTICIPATION FINANCE ON A CONSOLIDATION COURSE.

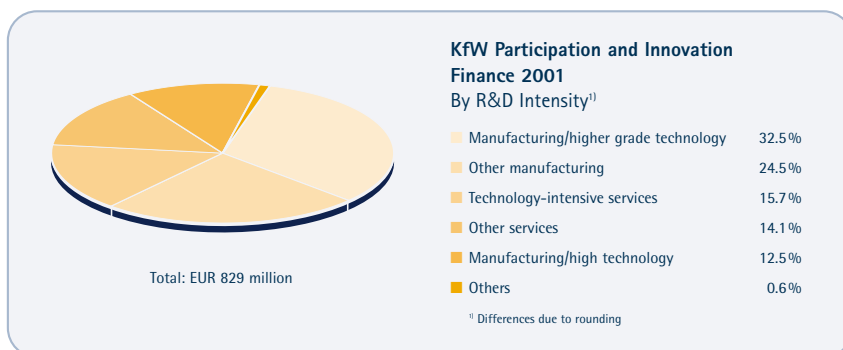
The year 2001 was characterized by consolidation for the equity participation market and the *Neuer Markt*. Demand for innovation and participation finance from KfW was not unaffected by this.

Commitments were lower than in the previous year at EUR 0.8 billion. This was mainly due to the participation programmes, which, at EUR 427 million, remained clearly below the previous year's figure.

Despite the restrained development last year the German participation market has good prospects of development over the medium to long

term. The shake-out in the market put an end to exaggerated expectations of yield and brought realistic evaluations and attractive purchase prices. The improvement in the general conditions due to the tax reform is expected to generate further positive impulses.

KfW's participation programmes have made a considerable contribution to the development of a market for equity capital in Germany over the last five years that is quantitatively significant and efficient. It is opening up new financing prospects for many companies.



## INVESTMENT FINANCE IN EUROPE.

### CLOSE COOPERATION WITH THE EUROPEAN UNION.

European promotional funds should be easily accessible to German SMEs. Hence, KfW is cooperating closely with the European Investment Bank (EIB), the European Investment Fund (EIF), the Council of Europe Development Bank (CEB) and the European Commission. KfW is also incorporating European initiatives, such as "Growth

and the Environment", or "Growth and Employment", in its programmes. In this way the European promotional measures reach the German investor efficiently and along a well-proven path. At the same time KfW can offer better promotional conditions and a wider range of promotional products.

#### BUILDING UP A PROMOTIONAL NETWORK THROUGHOUT EUROPE.

Promotion for small and medium-sized enterprises is of concern not only in Germany but in other European countries as well. That applies both to SME financing in general and to current subjects of discussion such as Basel II. For the exchange of experience and the representation of common interests KfW forms networks with promotional banks in other European countries.

One such forum is the Network of European Financial Institutions (NEFI), which KfW set up in 1999 together with six promotional institu-

tions from six countries. Last year NEFI intensified its cooperation with the European Commission, e.g. in the discussions over Basel II.

KfW is also a member of what is known as the CLUB (Institutions in the European Union of Long-Term Lending), that has existed since 1972. Last year the 13 national and European institutions in the CLUB signed the seventh agreement to continue their cooperation.

#### CONTINUING SME FINANCE IN WESTERN EUROPE.

Europe is becoming a domestic market and KfW is part of the process. For small and medium-sized firms national frontiers in Europe are becoming less and less important. KfW is also increasingly Europeanizing its promotion and financing small and medium-sized enterprises in western Europe. Since the year 2000 it has been making global loans available to fund the SME programmes and loans of local promotional banks and commercial banks in western Europe that specialize in SME financing. The loans are

used to promote investment in equipment, for example, and environmental protection measures.

What began in 1999 as strategic cooperation with promotional banks and was concretized in 2000 with the first global loan for a total of EUR 970 million was successfully continued in 2001. The volume of commitments for global loans to western European partner banks was increased last year by EUR 1.3 billion to a total of EUR 2.3 billion.

#### Commitments in Western Europe as per December 31, 2001

Credit lines in EUR million

|               |              |
|---------------|--------------|
| Austria       | 600          |
| Denmark       | 234          |
| Finland       | 50           |
| France        | 200          |
| Great Britain | 410          |
| Ireland       | 150          |
| Italy         | 400          |
| Netherlands   | 150          |
| Portugal      | 100          |
| Spain         | 30           |
| <b>Total</b>  | <b>2,324</b> |

## SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN CENTRAL AND EASTERN EUROPE.

KfW has so far funded promotional programmes for local promotional banks and commercial banks in 13 countries in Central and Eastern Europe to a total of EUR 520 million. It supported the majority of these banks while they were being set up and in their initial operations

with consultancy and know-how. The main focus is on financing programmes for small and medium-sized firms, but KfW also supports programmes for housing, infrastructure projects and environmental measures.

### Commitments in Central and Eastern European States as per Dec. 31, 2001

Credit lines in EUR million

|                        |            |
|------------------------|------------|
| Bosnia and Herzegovina | 7.67       |
| Croatia                | 131.2      |
| Czech Republic         | 15         |
| Estonia                | 20.45      |
| Hungary                | 76.2       |
| Latvia                 | 23         |
| Lithuania              | 10.1       |
| Macedonia              | 15         |
| Poland                 | 80         |
| Romania                | 25.56      |
| Slovakia               | 65.56      |
| Slovenia               | 35         |
| Ukraine                | 15.3       |
| <b>Total</b>           | <b>520</b> |

### PROMOTING SMES IN CANDIDATE COUNTRIES FOR EU ENTRY.

At the end of 2000 KfW, in cooperation with the Council of Europe Development Bank (CEB), signed a contract with the European Commission for the promotion of SMEs in the countries of Central and Eastern Europe that are candidates for entry into the EU. Under this programme loans from KfW/CEB totalling EUR 113 million will be supported with grants from the European Commission to a total of EUR 21 million.

The aim of this programme is to increase lending to small and medium-sized firms by local banks. For their commitment to SME finance the banks receive not only technical support but also additional EU grants. These are used to cover greater risks on the loans and higher processing expenditure.



#### COOPERATION WITH PARTNER BANKS IN THE EU CANDIDATE COUNTRIES.

By the end of 2001 KfW had signed contracts with partner banks in seven EU candidate countries (the Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) for a total volume of lending of EUR 110 million, with supplementary grants from the EU budget of EUR 18.7 million.

#### PROMOTING CLIMATE AND ENVIRONMENTAL PROTECTION.

Across the board of its promotional programmes, KfW promoted climate and environmental protection in 2001 to a total of EUR 4.1 billion through its investment finance, around EUR 1 billion more than in the previous year.

#### CLIMATE PROTECTION A MAJOR FOCUS OF KfW ENVIRONMENTAL PROMOTION.

Climate protection is an urgent task, and great efforts are still needed if Germany is to fulfil its national target for reducing CO<sub>2</sub> emissions. In the short and medium term energy conservation projects are the right way to cut down the emission of gases that are harmful to the climate, but over the long term the potential of renewable energy sources must be developed further and better utilized. KfW is active in promoting both areas.

#### UTILIZING THE POTENTIAL FOR CONSERVING ENERGY IN BUILDINGS.

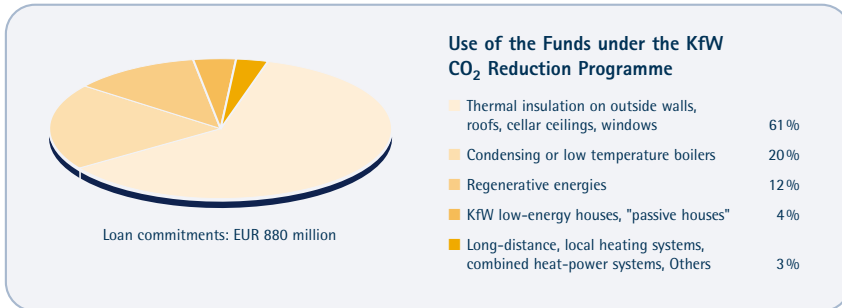
The greatest potential for saving energy is in housing. By far the greater majority of residential buildings in Germany are more than 25 years old. Measures to save energy and protect the climate can be implemented quickly and effectively here.

In cooperation with the Federal Government KfW considerably expanded its promotion of climate protection at the beginning of last year by launching the CO<sub>2</sub> Building Rehabilitation Programme. This programme is part of the national climate protection programme and the loans are granted at interest rates that are greatly reduced with federal budget funds. Altogether KfW will

provide a volume of lending of around EUR 5 billion in this way, which will enable 300,000 housing units to be financed.

The KfW CO<sub>2</sub> Reduction Programme, launched in 1996, and the KfW Housing Modernization Programme II were continued. Unlike the CO<sub>2</sub> Building Rehabilitation Programme, under the KfW CO<sub>2</sub> Reduction Programme not only comprehensive packages of measures but also individual measures can be promoted.

With loan commitments of more than EUR 1.9 billion KfW promoted climate protection investments in 157,000 apartments in 2001.



#### BUILDING UP SUSTAINABLE ENERGY SUPPLIES.

Renewable energy sources will make an essential contribution to climate protection over the long term. They also increase the security of energy supplies to Germany and Europe. The greater use of renewable energy sources is already strengthening the German and European economies; it is opening up new export opportunities and creating jobs.

With the 100,000 Roofs Solar Power Programme KfW is making solar power plants a focal area of its investment promotion. Last year loans for a volume of EUR 429 million were committed for this purpose. Since the 100,000 Roofs Solar Power Programme was started in 1999 more than

31,000 photovoltaic systems – mainly owned by private homeowners – with an output of 126 MWp have been promoted. That is sufficient to meet the electricity needs of the private households in one small German town.

The volume of commitments under the Programme to Promote Renewable Energies was more than twice as high as in the previous year at EUR 124 million. So far 837 electricity or heating generation installations and combined heat and power plants have been promoted. Most of the loan commitments were for biogas, biomass and hydropower plants.

#### INDUSTRIAL POLLUTION CONTROL INCREASING DESPITE THE DIFFICULT ECONOMIC SITUATION.

The KfW Environmental Protection Programme is used to support environmental protection measures by commercial investors. The commitments for industrial pollution control in Germany were 37% above the previous year's volume at around EUR 800 million. The loans stimulated investment in environmental protection, mainly by small and medium-sized enterprises, to a volume of about EUR 1.1 billion.

The KfW Environmental Protection Programme also promotes measures abroad if they are carried out by German investors. The steady upwards trend of recent years continued here with growth of 7%. The volume of commitments rose to just under EUR 130 million.

## PROGRAMMES TO PROMOTE HOME OWNERSHIP AND HOUSING MODERNIZATION.

### LOW FINANCING COSTS FOR OWNER-OCCUPIERS.

The desire to own a home is very strong in Germany. Surveys show that by far the greater majority of all Germans would prefer to live within their own four walls rather than in rented property. Moreover, home ownership is seen as the best means of providing for old age – even better than stocks and shares or investment funds. However, the dream of owning a home often fails to be realized because of the financial obstacles.

With its Programme to Promote Home Ownership KfW is helping to lower the costs of financing and stretch them over a longer period. In this way it is also helping people to provide for

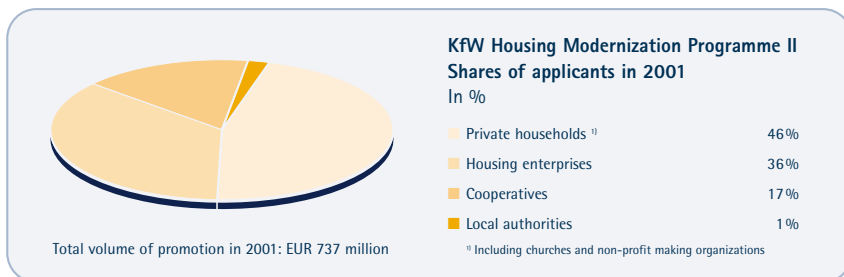
their old age by acquiring their own homes. In August 2000 the programme was greatly improved and extended. Since then anyone in Germany who is buying or building their own home can obtain a KfW loan of up to 30% of the investment costs at a favourable rate of interest.

The demand for these promotional funds increased considerably in 2001, and under the KfW Programme to Promote Home Ownership low-interest loans totalling EUR 6.3 billion were committed for 120,000 purchases of houses and apartments.

### STRUCTURAL CHANGE IN THE HOUSING SECTOR IN THE NEW FEDERAL STATES.

Support for structural change in the housing sector in the new federal states is still an important area of promotion. In 2001 KfW committed loans here totalling EUR 0.7 billion for the modernization of altogether 49,000 apartments. The loans were mainly used for renovation

and improvements to the functional value. Nearly half the volume of lending committed went to private households, while the other half went to housing enterprises, cooperatives and local authorities.



## PROGRAMME TO PROMOTE INFRASTRUCTURE.

### THE INFRASTRUCTURE REMAINS A CENTRAL FACTOR FOR BUSINESS LOCATIONS.

In 2001 KfW committed loans totalling EUR 2.8 billion for the modernization and expansion of the municipal infrastructure. The loans cofinanced infrastructure projects involving investment totalling EUR 8.5 billion in more than 1,100 towns and municipalities.

In the old federal states the volume of lending committed rose by 10%. In the new federal states, on the other hand, it fell by 25% – although terms and conditions there were particularly favourable. The reason for the fall is the low tax revenue to the Eastern German municipi-

palities and the high level of per capita indebtedness they have now reached. But the weak trend in the economic cycle also led to evident cut-backs in investment expenditure by the Eastern German local authorities.

As in the previous year investment in the social infrastructure, in environmental protection and transport infrastructure, and in town and village development projects were the main areas of financing under the KfW Infrastructure Programme.

#### The KfW Infrastructure Programme 2001<sup>1)</sup> Shares in commitments by purpose

|  |               |
|--|---------------|
| Sewage treatment   | 23.0%         |
| Transport  | 20.3%         |
| Kindergartens, schools, sports facilities                                | 18.3%         |
| Hospitals, facilities for the elderly and facilities for the handicapped | 14.7%         |
| Urban and village development  | 11.1%         |
| Water supplies   | 4.1%          |
| Waste disposal   | 2.4%          |
| Other  | 6.1%          |
| <b>Total</b>   | <b>100.0%</b> |
| <b>Commitments in EUR million</b>  | <b>2,7960</b> |

<sup>1)</sup> Including sewage and waste disposal in Saxony-Anhalt

## PROJECT FINANCE IN GERMANY.

Compared with the previous year, when KfW achieved an extraordinarily high volume of commitments, domestic project finance fell to EUR 4.1 billion in 2001. Energy and the environment accounted for the largest share of commitments with EUR 1.1 billion for investment in the energy industry. Transport infrastructure accounted for EUR 0.9 billion. This included loans to finance the crossing of the Trave. Industrial projects had a share of just under EUR 0.8 billion in the total volume. The main areas here were the automotive industry and the chemical industry.

Loans totalling EUR 0.4 billion were committed to finance purchases of ships by German shipping lines. Aircraft finance also amounted to EUR 0.4 billion. Loans for just under EUR 0.3 billion were extended for airports and seaports, i.a. for the conversion and expansion of the warehouses at Hamburg harbour. Telecommunications received commitments totalling EUR 0.2 billion for the expansion of mobile phone networks.

## REGIONAL AND SECTORAL FOCAL AREAS OF KfW PROMOTION.

### PRIVATE HOUSEHOLDS GAIN IN IMPORTANCE.

The corporate sector is still the most important recipient of KfW commitments at 60% of the loan volume. However, owing to the strong rise in commitments under the housing programmes private households are gaining in importance. Their share grew from 25% in 2000 to 40% in 2001.

The sectoral distribution has not greatly changed since last year; however, the trend to-

wards the services society remains unbroken. The relative shares of the volume of corporate promotional loans have also shifted slightly in 2001 further towards services and so away from the producing sector. The increasing orientation of the promotional programmes to the needs of this target group has certainly contributed to this development.

### GROWTH POTENTIALS IN THE NEW FEDERAL STATES.

The manufacturing industry in eastern Germany has a growing but still very low share of regional value creation, compared with western Germany. It is still clearly below average. There are still considerable untapped potentials here for economic development in the new states. However, in KfW's commitments statistics the manufactur-

ing industry in Eastern Germany already has a clearly above-average weight, and although the economic situation is difficult as a whole the development potential of this sector is evidently recognized by companies and being exploited with the help of our offers of promotion.

## KfW Loan Commitments by Economic Sector and Industry in 2000 and 2001

Commitments in EUR million and %

| Economic sector/industry                                   | All programmes |              | Programmes for SMEs           |                                  |
|--|----------------|--------------|-------------------------------|----------------------------------|
|  | In EUR million |              | In % of volume of commitments |                                  |
|  | 2000           | 2001         | 2001<br>East<br>(with Berlin) | 2001<br>West<br>(without Berlin) |
| <b>Agriculture and forestry</b>                            | <b>94</b>      | <b>136</b>   | <b>1.6</b>                    | <b>1.1</b>                       |
| <b>Producing industries</b>                                | <b>4.765</b>   | <b>4.353</b> | <b>59.7</b>                   | <b>46.9</b>                      |
| ■ Mining and non-metallic minerals extraction              | 32             | 39           | 0.8                           | 0.5                              |
| ■ Manufacturing  | 3.799          | 3.388        | 52.5                          | 41.8                             |
| ■ Pre-products   | 2.293          | 1.957        | 31.9                          | 22.4                             |
| - Textiles (not incl. fashion wear), leather production    | 71             | 67           | 2.2                           | 0.6                              |
| - Timber (not incl. furniture or wooden goods)             | 211            | 124          | 2.7                           | 1.4                              |
| - Paper  | 127            | 118          | 1.0                           | 1.0                              |
| - Printing, reproduction                                   | 197            | 227          | 7.9                           | 2.1                              |
| - Chemicals (not incl. pharmaceuticals or soaps)           | 146            | 89           | 0.8                           | 0.9                              |
| - Rubber and plastic goods                                 | 321            | 238          | 3.5                           | 3.2                              |
| - Glass/ceramics   | 247            | 128          | 2.3                           | 1.3                              |
| - Metals production  | 681            | 666          | 6.7                           | 8.5                              |
| - Equipment to generate and supply electricity             | 72             | 68           | 1.2                           | 0.9                              |
| - Electronics  | 113            | 116          | 2.5                           | 1.3                              |
| - Other pre-products                                       | 107            | 116          | 1.1                           | 1.2                              |
| ■ Capital goods  | 897            | 863          | 12.1                          | 12.4                             |
| - Steel and light metal construction                       | 115            | 141          | 2.5                           | 2.0                              |
| - Mechanical engineering                                   | 465            | 429          | 5.2                           | 6.3                              |
| - Electrical engines, generators, transformers             | 69             | 90           | 1.2                           | 1.2                              |
| - Medical, measuring, controlling and regulation equipment | 113            | 110          | 1.9                           | 1.6                              |
| - Vehicle construction                                     | 79             | 69           | 0.6                           | 1.0                              |
| - Other capital goods                                      | 56             | 24           | 0.7                           | 0.3                              |
| ■ Durable consumer goods                                   | 108            | 79           | 1.6                           | 1.0                              |
| - Optics, clocks and watches                               | 49             | 29           | 0.5                           | 0.4                              |
| - Other durable consumer goods                             | 58             | 50           | 1.1                           | 0.6                              |
| ■ Consumer goods   | 502            | 489          | 6.6                           | 5.9                              |
| - Food, tobacco  | 367            | 341          | 4.8                           | 3.9                              |
| - Textiles (fashion wear), clothing, leather               | 28             | 31           | 0.6                           | 0.4                              |
| - Chemicals (pharmaceuticals, soaps)                       | 66             | 49           | 0.7                           | 0.7                              |
| - Other consumer goods                                     | 41             | 68           | 0.5                           | 0.9                              |
| ■ Energy and water supply                                  | 543            | 586          | 3.0                           | 0.2                              |
| - Energy, gas and long-distance heating supply             | 228            | 293          | 2.9                           | 0.2                              |
| - Water supply   | 316            | 293          | 0.1                           | 0.0                              |

(cont.)

| Economic sector/industry   | All programmes |               | Programmes for SMEs           |                                  |
|--|----------------|---------------|-------------------------------|----------------------------------|
|  | In EUR million |               | In % of volume of commitments |                                  |
|  | 2000           | 2001          | 2001<br>East<br>(with Berlin) | 2001<br>West<br>(without Berlin) |
| ■ Construction   | 390            | 340           | 3.7                           | 4.4                              |
| - Civil engineering, building                                      | 153            | 101           | 1.2                           | 1.2                              |
| - Building installations, other construction                       | 237            | 239           | 2.5                           | 3.2                              |
| <b>Services</b>  | <b>7,325</b>   | <b>7,275</b>  | <b>38.7</b>                   | <b>52.0</b>                      |
| ■ Trade  | 1,400          | 1,182         | 11.1                          | 17.4                             |
| - Vehicle sales  | 484            | 342           | 4.6                           | 4.9                              |
| - Wholesale trade  | 415            | 389           | 2.6                           | 5.4                              |
| - Retail trade   | 501            | 451           | 3.9                           | 7.1                              |
| ■ Hotels and catering  | 233            | 234           | 2.8                           | 3.5                              |
| ■ Transport and communications                                     | 649            | 503           | 5.0                           | 4.8                              |
| ■ Property and housing   | 1,185          | 1,365         | 2.4                           | 4.6                              |
| ■ Services mainly for businesses                                   | 1,037          | 689           | 6.3                           | 6.7                              |
| ■ Health care  | 545            | 742           | 4.2                           | 8.2                              |
| ■ Environmental services   | 316            | 275           | 0.3                           | 0.3                              |
| ■ Other services   | 1,959          | 2,285         | 6.6                           | 6.5                              |
| Private households   | 4,135          | 7,799         | --                            | --                               |
| ■ Non-specified  | 186            | 108           | --                            | --                               |
| <b>Total</b>   | <b>16,506</b>  | <b>19,671</b> | <b>100.0</b>                  | <b>100.0</b>                     |
| <i>Memo item: Promotion of the crafts under the SME programmes</i> | 707            | 515           | 6.1                           | 8.2                              |

#### THE CRAFTS PROMOTE REGIONAL DEVELOPMENT.

The share of the crafts in KfW's commitments for small and medium-sized firms has fallen slightly in recent years. This development has moved analogous to the importance of the crafts in the economy as a whole. In 2001, as well, craft firms were more strongly represented in the broad programmes for the SME sector than in the special programmes for innovation and equity participation finance. That is typical of this sector. The crafts have a share of more than 13% in the companies investing under the

ERP Regional Promotion Programme, which is specially designed for investment to improve the regional economic structure. So the crafts are making an important contribution to regional economic development, especially in structurally weak areas.

In 2001 the regional emphasis of the KfW promotional programmes was again in North-Rhine Westphalia, Baden-Württemberg and Bavaria. These three states alone accounted for more than half the volume of commitments.

**The Distribution of the Volume of Commitments by Federal States 2000 and 2001**  
EUR million

| Commitments in                          | Trade and Industry <sup>1)</sup> |              | Housing      |              | Infrastructure |              | Total         |               |
|---|----------------------------------|--------------|--------------|--------------|----------------|--------------|---------------|---------------|
|   | 2000                             | 2001         | 2000         | 2001         | 2000           | 2001         | 2000          | 2001          |
| Schleswig-Holstein                      | 294                              | 253          | 153          | 322          | 23             | 67           | 470           | 642           |
| Hamburg                                 | 174                              | 153          | 44           | 151          | 396            | 477          | 614           | 781           |
| Lower Saxony                            | 786                              | 716          | 488          | 1,015        | 195            | 204          | 1,469         | 1,935         |
| Bremen                                  | 85                               | 62           | 23           | 67           | 63             | 99           | 172           | 228           |
| North Rhine-Westphalia                  | 1,735                            | 1,854        | 1,063        | 2,270        | 485            | 524          | 3,282         | 4,648         |
| Hesse                                   | 418                              | 460          | 305          | 606          | 79             | 56           | 802           | 1,122         |
| Rhineland-Palatinate                    | 372                              | 366          | 202          | 409          | 65             | 77           | 638           | 852           |
| Baden-Württemberg                       | 1,519                            | 1,298        | 559          | 1,207        | 209            | 180          | 2,287         | 2,685         |
| Bavaria                                 | 1,113                            | 1,117        | 549          | 1,254        | 344            | 378          | 2,006         | 2,749         |
| Saarland                                | 81                               | 74           | 48           | 99           | 13             | 7            | 143           | 180           |
| Berlin                                  | 286                              | 272          | 306          | 264          | 377            | 280          | 969           | 816           |
| Brandenburg                             | 213                              | 159          | 237          | 293          | 78             | 58           | 528           | 510           |
| Mecklenburg-Western Pomerania           | 250                              | 110          | 197          | 212          | 121            | 94           | 567           | 416           |
| Saxony                                  | 398                              | 316          | 503          | 443          | 191            | 136          | 1,092         | 895           |
| Saxony-Anhalt                           | 224                              | 168          | 244          | 200          | 91             | 96           | 559           | 464           |
| Thuringia                               | 242                              | 190          | 166          | 172          | 31             | 63           | 440           | 425           |
| Non-specified <sup>2)</sup>             | 467                              | 323          | 0            | 0            | 0              | 0            | 467           | 323           |
| <b>Total</b>                            | <b>8,658</b>                     | <b>7,891</b> | <b>5,088</b> | <b>8,984</b> | <b>2,760</b>   | <b>2,796</b> | <b>16,506</b> | <b>19,671</b> |
| Western federal states (without Berlin) | 6,578                            | 6,353        | 3,436        | 7,400        | 1,870          | 2,069        | 11,884        | 15,822        |
| Eastern federal states (with Berlin)    | 1,613                            | 1,215        | 1,653        | 1,584        | 890            | 727          | 4,155         | 3,526         |

<sup>1)</sup> Not including domestic project finance (2000: EUR 4.9 billion; 2001: EUR 3.5 billion)

<sup>2)</sup> Of which: commitments for investment abroad (2000: EUR 312 million; 2001: EUR 284 million)



# EXPORT AND PROJECT FINANCE.

A GOOD RESULT -  
KFW STRENGTHENS GERMAN FIRMS ABROAD.



### CONSOLIDATION ON A HIGH LEVEL.

A good result was achieved in export and project finance with commitments totalling EUR 8.2 billion (EUR 10.9 billion). After the extraordinary volume of commitments in the previous year 2001 brought consolidation in the development of business. Towards the end of the year under review the markets' reactions to the terrorist attacks in the United States on September 11 were being felt. As the world economy was already in a weak phase these events clearly increased uncertainty about future developments. Expectations for the current year as well are for a rather restrained trend.

In KfW's business activities the creation of new divisions for airport and seaport finance, and for water and waste water management, has proved positive. The bank succeeded in entering the container terminal business, for instance, and promising relations were built up with water companies operating internationally. In finance for infrastructure projects models in the private sector are acquiring ever greater weight.

Besides export finance tied to deliveries the bank continued its commitments to direct investment and acquisitions by German firms abroad. These transactions accounted for just over one third of our entire volume of commitments.



**The Development in the Individual Areas of Business in Export and Investment Finance**

Loan commitments in EUR million

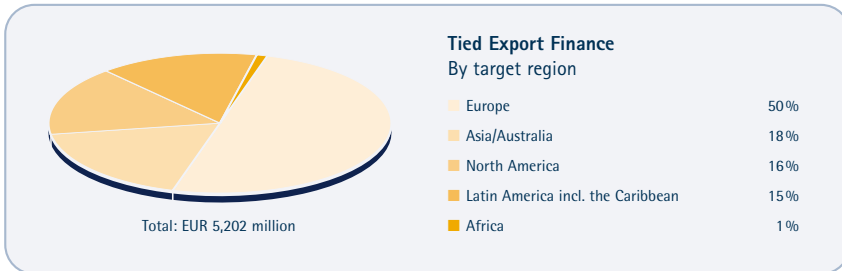
| Area of business    | Export finance | Investment finance | Total        | Main focus  |
|---------------------|----------------|--------------------|--------------|---|
| Industry            | 491            | 916                | 1,407        | Vehicle construction, chemicals, steel                                    |
| Energy, environment | 1,266          | 67                 | 1,333        | Electricity generating and transmission plant<br>environmental technology |
| Telecommunications  | 380            | 428                | 808          | Mobile communications systems   |
| Raw materials       | 39             | 348                | 387          | Mining projects   |
| Ships               | 912            | 580                | 1,492        | Cruising vessels, ferries and container ships                             |
| Aircraft            | 1,325          | 425                | 1,750        | Airbus deliveries   |
| Overland transport  | 645            | 167                | 812          | Rail transport  |
| Ports               | 144            | 90                 | 234          | Container terminals   |
| <b>Total</b>        | <b>5,202</b>   | <b>3,021</b>       | <b>8,223</b> |   |

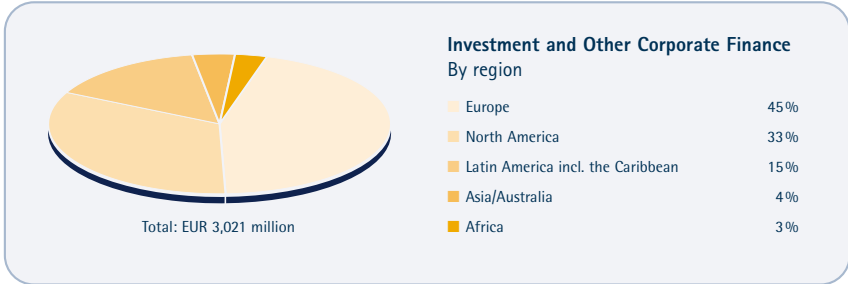
Loans in euros accounted for a share of just under 39% in the total volume of finance. In loans in foreign currencies the US dollar predominated.

**THE REGIONAL DISTRIBUTION OF LOAN COMMITMENTS.**

The regional distribution of commitments for both areas of business shows that German firms are still focussing the major part of their export and investment activity in Europe. Nevertheless, Asia and Latin America are still important target

markets. However, the economic and monetary problems in some countries in these regions have meant that larger projects, particularly in infrastructure, have been delayed or had to be postponed.

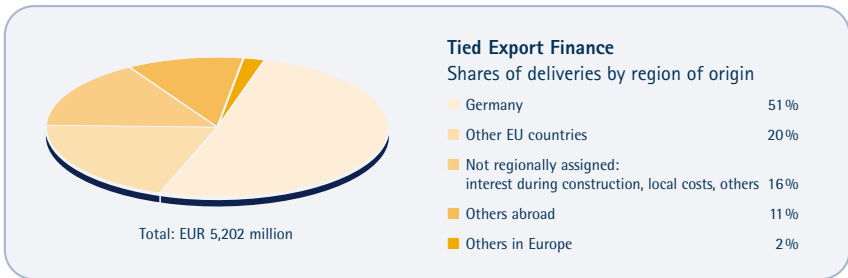




**FINANCE FOR AND IN EUROPE.**

Support for the foreign interests of German firms is the keynote in KfW's export and project finance. In the globalization process these interests have assumed new forms. They are no longer limited to exporting products made in German locations, German firms are increasingly cooperating with foreign firms, especially firms in other EU countries. The bank has been responding to these developments for some years and offering financing packages from a single source, which include the parts of deliveries from other countries as well.

Support for the process of European integration remains an important business policy objective of KfW export and project finance. This includes export finance for European delivery packages and European corporate finance that will advance this process on the level of the individual firm. In addition, during the year under review KfW again participated in larger infrastructure projects which were part of TEN (Trans-European Networks) projects. They included a rail project in the Czech Republic and a toll motorway in Croatia.

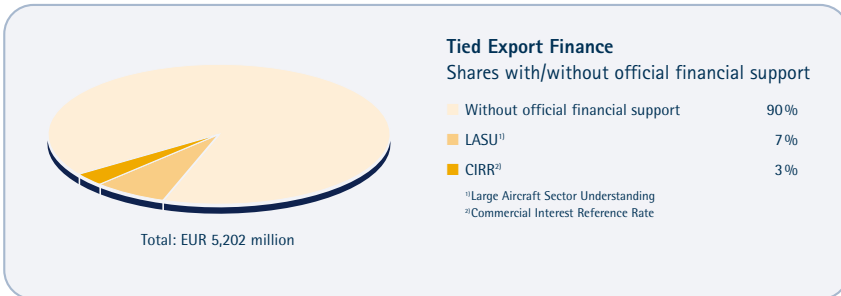
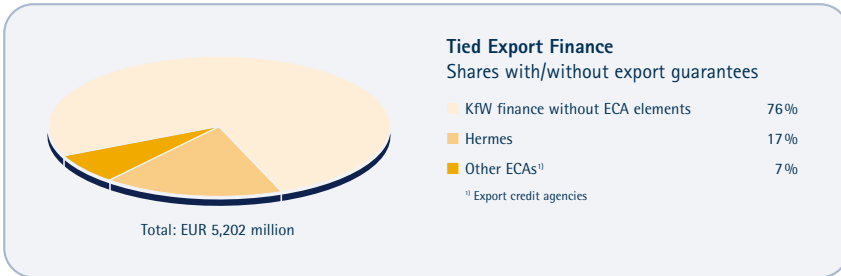


FINANCE WITH OFFICIAL SUPPORT.

The instruments of state export promotion – credit insurance and officially supported loans – play an important role in KfW's business. Cofinancing foreign supplies or parts of deliveries results in closer cooperation with foreign credit insurers.

With the help of funds from the Federal budget KfW again made finance available in

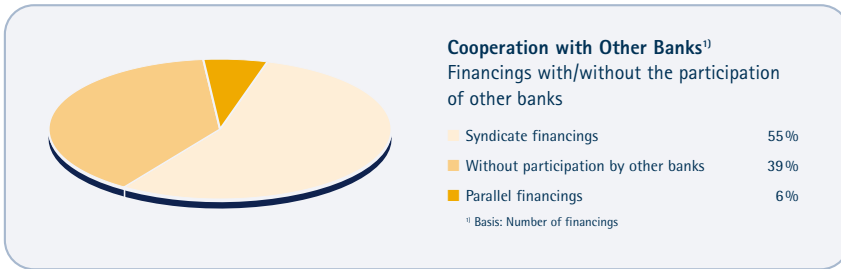
2001 at interest rates that were in conformity with the international agreements on state-supported interest rates for the Commercial Interest Reference Rate (CIRR) and for the aircraft sector. In each market segment this kind of finance is an important element to maintain the competitiveness of German exporters.



### COOPERATION WITH OTHER BANKS.

Cooperation between banks and other financial institutions is strengthening, as a direct reflection of cross-frontier cooperation between firms in the production of goods and services and in the export business. More than 60% of all financings during the year under review were carried out jointly with other banks.

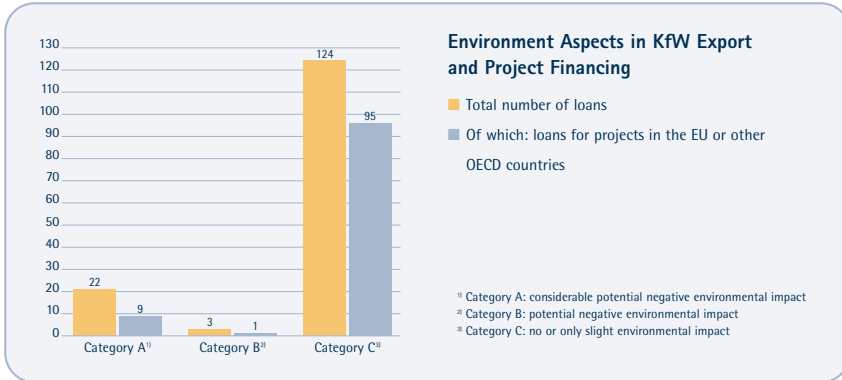
In tied export finance cooperation of this kind evolves particularly if large parts of deliveries or services from different countries are being combined. In investment and other corporate finance syndicate financing is the rule for large volumes.



### RESPONSIBILITY FOR THE ENVIRONMENT.

The banks share responsibility for ensuring that the projects they finance are as environmentally and socially compatible as possible. KfW sees this as a very important task. Hence, all loan applications are subject to screening in accordance with the environment guideline for KfW export

and project finance. During this preliminary appraisal the environmental and social aspects of the project to be financed are assessed. During the year under review 149 new loan applications were screened in this way.



Category A and B projects are subject to a more in-depth appraisal during which the technical and environmental experts in KfW are consulted, unless such projects are to be carried out in an EU country or another OECD country with established environmental protection legislation and practice. In addition, a more thorough appraisal need not be made if

- the deliveries to be financed will only make a slight contribution to the project as a whole
- the investment is to replace an investment in existing plant that is classified as Category A or B.

In 2001 18 projects were subject to more in-depth appraisal. In every case internationally accepted standards, e.g. those of Germany or the World Bank, were applied.

# PROMOTION OF THE DEVELOPING COUNTRIES.

THE WAY OUT OF POVERTY –  
KFW'S HIGHLY SUCCESSFUL COMMITMENT.





## KFW'S ACTIVITIES.

### AROUND 1,300 PROJECTS IN 105 COUNTRIES.

KfW promotes investment and macroeconomic and sectoral reform programmes in developing countries on behalf of the Federal Government. Under this Financial Cooperation (FC) KfW appraises the eligibility of projects for promotion, finances and supports their implementation and finally assesses the success of each project. The funds provided for this from the federal budget are supplemented in suitable cases with funds which KfW raises in the capital market. KfW is currently promoting around 1,300 projects in 105 countries.

Financial Cooperation is directed mainly to alleviating poverty, which is the basic aim of German development policy. It helps to reduce social and economic tension and ecological risks, and makes a contribution to securing peace

worldwide. To implement these aims KfW works in close coordination on the projects promoted with other bilateral and multilateral donors.

On 19 June 2001 DEG was incorporated in the KfW Group as an independent subsidiary. This will enable the advantages of the two institutions and their scope for promotion in development policy to be even better coordinated. DEG will greatly enrich the range of instruments of the KfW Group through its promotion of the private sector, especially in the field of indirect poverty alleviation. Greater involvement of the private sector will help the transfer of knowledge and capital, create earnings opportunities and support the economic reforms that are necessary in many developing countries.

### THE DEVELOPMENT IN COMMITMENTS.

KfW committed around EUR 2.8 billion (EUR 1.5 billion) for the promotion of the developing countries in 2001. The increase over the previous year is due, among other things, to a renewed loan of EUR 1.4 billion (EUR 495 million) to the Poverty Alleviation and Growth Facility administered by the International Monetary Fund (IMF). These funds will flank the HIPC (Heavily Indebted Poor Countries) Initiative which supports poor and highly indebted developing countries in implementing programmes to alleviate poverty and promote growth.

The commitments from Federal budget funds rose to EUR 1 billion (EUR 0.9 billion) in 2001. Just under 50% was given as non-repayable grants and slightly more than 50% as long-term loans at preferential conditions.

For ten projects KfW supplemented the budget funds from the Federal Ministry of Cooperation and Development (BMZ) with its own promotional loans, mobilizing in this way a further EUR 300 million (EUR 100 million in the previous year) for the promotion of the developing countries. The interest reduction instrument was used here for the first time, that is, grants were given by the Federal Government to reduce the burden of interest payments for the partner country.

Use of the instrument of the KfW promotional loan introduced in 2000 was noticeably increased in 2001, with the volume rising to EUR 116 million after EUR 30 million in 2000. These promotional loans are refinanced from the bank's own funds to support projects eligible for promotion under development policy.

KfW is also increasingly placing its competence in cooperation with developing countries at the service of other bilateral and multilateral donors. For example, the bank received mandates from the European Commission, multilateral and bilateral partners and other German mini-

stries in 2001 totalling EUR 162 million (EUR 62 million). This volume includes EUR 23 million (EUR 22 million) for projects under the TRANSFORM Programme for the successor republics to the former Soviet Union (see Support for the TRANSFORM Programme on p. 78).

#### THE STRUCTURE OF COMMITMENTS AT PREFERENTIAL CONDITIONS.

The Asian share of FC commitments shot up again in 2001, accounting for 46% (22%). This was due to several projects that had been prepared in 2000 but for which the contracts could only be signed in 2001.

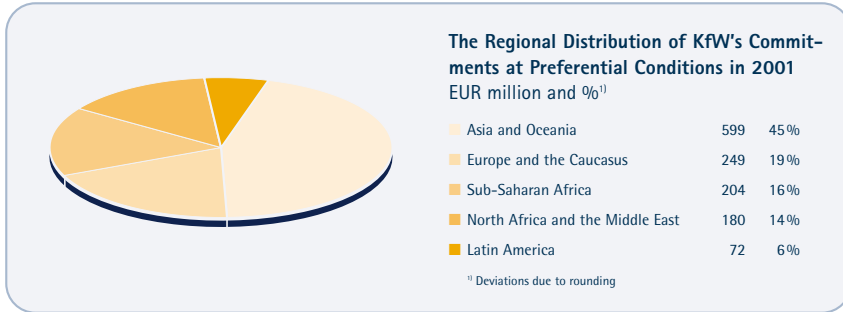
As a result of this delay Sub-Saharan Africa's share in the total volume of commitments was lower than a year before at 16% after 20%, although the volume of commitments has risen. The shares of commitments for North Africa/Middle East were 14% (29%) and for Latin America 6% (15%). So they have also shifted from the previous year. Europe/Caucasus was again able to increase its share, to 19% from 14%, a rise which is mainly due to the Federal Government's commitment to the Balkans and the Caucasus.

The shift in the regional distribution in 2001 is also reflected in the structure of the sectoral distribution. Infrastructure investment predominated in the commitments with 75% (72%), in keeping with the long-term average. The vol-

ume of commitments for the economic infrastructure rose markedly, to 44% after 20%. Its main components are energy and transport. The chief reason for this shift was delayed commitments to Asian countries for energy and transport projects. The share of social infrastructure, which includes water, waste water, education and health, has moved down accordingly, to 31% after 52%. The share of the financial sector in the volume of commitments remained largely stable at 9% (12%). Commitments for agriculture and forestry doubled from the previous year at 10% after 5%; this has brought them back closer to the level of earlier years, when the average share was 7%.

Around 46% of the commitments in 2001 were for the cross-sectoral field of poverty alleviation. Around 33% of the commitments were explicitly for projects to protect the environment and natural resources. A further fifth of the volume of commitments is being used for projects in which environmental and resource protection are important subsidiary aims.

## Promotion of the Developing Countries.



### Commitments by KfW to Promote the Developing Countries 1997 – 2001

EUR million

|  | 1997         | 1998         | 1999         | 2000         | 2001         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>FC commitments at preferential conditions</b>   | <b>1,737</b> | <b>1,390</b> | <b>1,634</b> | <b>927</b>   | <b>1,302</b> |
| From budget funds  | 1,475        | 1,357        | 1,278        | 851          | 1,026        |
| From market funds in composite finance/ mixed finance/<br>Southeast Asia Initiative and interest rate reductions | 262          | 33           | 356          | 76           | 276          |
| <b>Commitments for FC promotional loans</b>  |              |              |              | <b>30</b>    | <b>116</b>   |
| Loans under the Poverty Alleviation and Growth Facility  |              |              |              | 495          | 1,430        |
| <b>Total commitments</b>   | <b>1,737</b> | <b>1,390</b> | <b>1,634</b> | <b>1,452</b> | <b>2,848</b> |
| Memo item: Commitments under a mandates incl. the TRANSFORM Programme  | 33           | 35           | 38           | 62           | 162          |

### THE DEVELOPMENT IN DISBURSEMENTS.

KfW disbursed EUR 1.5 billion (EUR 1.3 billion) in 2001 for projects to promote the developing countries, of which EUR 307 million were KfW promotional loans from the bank's own funds.

After deduction of the interest and redemption payments on budget funds the net charge on the Federal budget in 2001 was 506 million euros (EUR 247 million).

## RESCHEDULINGS AND DEBT CONVERSIONS FOR ENVIRONMENTAL PROTECTION AND POVERTY ALLEVIATION.

To ease the debt situation for partner countries KfW signed rescheduling agreements with Bosnia and Herzegovina, Ecuador, Gabon, Kenya, Macedonia, Pakistan and Syria for a total of EUR 351 million in 2001.

The Federal Government committed a volume of EUR 244 million for debt conversion in 2001. These funds can be used in the debtor country for projects to alleviate poverty and maintain

the environment, and for education and training; in return repayment of the debt is waived. KfW signed appropriate agreements for a total of around EUR 50 million in 2001. Altogether projects of this kind have been agreed to a total of EUR 385 million, and so far it has been possible to waive EUR 187 million of debt, EUR 35 million of this in 2001.

## CURRENT DEVELOPMENTS AND PROSPECTS.

### A ROLE IN PREVENTING TERRORISM AND CRISES.

Backlogs in development, poverty and the resultant lack of future prospects for large sections of the world's population help to create a social environment in which terrorism can grow. A development policy oriented to combating poverty will play an important part in alleviating these problems. It can ease need and open up new prospects for many people.

KfW has been present in Kabul since the end of 2001. Its task is to coordinate the emergency aid for reconstruction on the spot. Financial Cooperation funds are being used among other things to rehabilitate education and health care

facilities, and restore water supplies. As early as December 2001 KfW was commissioned to implement an emergency programme for EUR 22 million in Afghanistan.

But activities to help prevent crises and secure peace are not only performed in Afghanistan and its neighbouring countries. KfW is also active in Central America, for instance and in Southeast Europe under the Stability Pact for that region. The success of these programmes is largely determined by how directly the people on the spot feel their effects.

#### INTERNATIONAL COMMITMENT FOR ENVIRONMENTAL AND RESOURCE PROTECTION.

KfW's extensive experience in environmental and resource protection is increasingly being used by the Federal Government. This know-how is playing a part in the preparations for the climate protection conference in Johannesburg, as one example.

In climate protection KfW is also working intensively under Financial Cooperation to elaborate concepts for the use of the flexible Kyoto mechanisms, the Clean Development Mechanism (CDM) and the Joint Implementation (JI). KfW

has good prerequisites for making a contribution to reduce greenhouse gas emissions.

Nature and species protection is also a main focus of Financial Cooperation. Worldwide we support sanctuaries in the form of nature parks and biosphere reserves, and protected areas for peoples under threat. KfW won an award jointly with the Federal Government from the WWF South Africa in 2001 for its commitment to cross-border nature protection in Southern Africa.

#### COMBATING AIDS - A CRUCIAL CONCERN.

Aids is, as before, one of the most serious obstacles to development in Sub-Saharan Africa. Nearly one tenth of the adult population in that region is infected with the HIV virus. The World Bank forecasts that life expectancy in the countries greatly affected by Aids will fall from 64 to 47 in the next decade.

The heated discussion over financing Aids drugs, in 2001 particularly, must not be allowed to direct attention away from the fact that avoid-

ing infection is and will remain the most important weapon against Aids. Hence, continuing and strengthening information and awareness campaigns and educational work, together with nation-wide sales of good quality condoms at affordable prices through the formal and informal private sector, is still a key element in the FC strategy. In the past year alone EUR 39 million was committed for this.

#### INCREASING THE BANK'S COMMITMENT TO PREVENTING CORRUPTION.

Corruption is a serious international phenomenon that can greatly reduce the effects of development policy work. KfW therefore increased its measures to prevent corruption in 2001 and since October 2001 explicit anti-corruption clauses have been part of all the new FC loan and financing contracts. In addition, all FC funded tenders

include obligatory declarations of undertaking by all bidders. These measures are a continuance of previous measures. They are intended to make KfW's partners more aware of the problems of corruption and facilitate legal action in cases of dispute.

**Promotion of the Developing Countries – Commitments by KfW  
in 2001 by Countries**  
EUR million

| Position | Country                    | Budget funds | Market funds | Total  |
|----------|----------------------------|--------------|--------------|--------|
| 1        | India                      | 115.65       | 68.10        | 183.76 |
| 2        | People's Republic of China | 74.39        | 73.37        | 147.76 |
| 3        | Egypt                      | 102.26       | 0.00         | 102.26 |
| 4        | Serbia                     | 33.49        | 51.13        | 84.62  |
| 5        | Indonesia                  | 68.62        | 14.83        | 83.44  |
| 6        | Turkey                     | 63.81        | 0.00         | 63.81  |
| 7        | Vietnam                    | 49.08        | 13.29        | 62.38  |
| 8        | Sri Lanka                  | 13.04        | 31.44        | 44.48  |
| 9        | Jordan                     | 37.68        | 0.00         | 37.68  |
| 10       | Chile                      | 7.67         | 17.90        | 25.56  |
| 11       | Tunisia                    | 17.33        | 6.14         | 23.47  |
| 12       | Afghanistan                | 21.99        | 0.00         | 21.99  |
| 13       | Armenia                    | 20.45        | 0.00         | 20.45  |
| 14       | Georgia                    | 18.15        | 0.00         | 18.15  |
| 15       | Senegal                    | 17.90        | 0.00         | 17.90  |
| 16       | Benin                      | 17.42        | 0.00         | 17.42  |
| 17       | Kenya                      | 15.34        | 0.00         | 15.34  |
| 18       | El Salvador                | 15.34        | 0.00         | 15.34  |
| 19       | South Africa               | 15.34        | 0.00         | 15.34  |
| 20       | Ethiopia                   | 14.39        | 0.00         | 14.39  |
| 21       | Guinea                     | 13.29        | 0.00         | 13.29  |
| 22       | Brazil                     | 12.78        | 0.00         | 12.78  |
| 23       | Bosnia and Herzegovina     | 12.27        | 0.00         | 12.27  |
| 24       | Albania                    | 12.02        | 0.00         | 12.02  |
| 25       | Pakistan                   | 12.02        | 0.00         | 12.02  |
| 26       | Burkina Faso               | 11.76        | 0.00         | 11.76  |
| 27       | Mozambique                 | 11.50        | 0.00         | 11.50  |
| 28       | Mali                       | 11.38        | 0.00         | 11.38  |
| 29       | Zambia                     | 11.25        | 0.00         | 11.25  |
| 30       | Kyrgyzstan                 | 10.23        | 0.00         | 10.23  |
| 31       | Montenegro                 | 10.23        | 0.00         | 10.23  |
| 32       | Tanzania                   | 9.71         | 0.00         | 9.71   |
| 33       | Cameroon                   | 8.69         | 0.00         | 8.69   |
| 34       | Niger                      | 8.69         | 0.00         | 8.69   |
| 35       | Yemen                      | 8.69         | 0.00         | 8.69   |
| 36       | Laos                       | 8.18         | 0.00         | 8.18   |
| 37       | Sierra Leone               | 7.85         | 0.00         | 7.85   |

## Promotion of the Developing Countries.

(cont.)

| Position     | Country                 | Budget funds    | Market funds  | Total           |
|--------------|-------------------------|-----------------|---------------|-----------------|
| 38           | Côte d'Ivoire           | 7.67            | 0.00          | 7.67            |
| 39           | Cambodia                | 7.67            | 0.00          | 7.67            |
| 40           | Kosovo                  | 7.41            | 0.00          | 7.41            |
| 41           | Palestinian Territories | 7.16            | 0.00          | 7.16            |
| 42           | Bolivia                 | 6.34            | 0.00          | 6.34            |
| 43           | Uzbekistan              | 6.29            | 0.00          | 6.29            |
| 44           | Nicaragua               | 5.62            | 0.00          | 5.62            |
| 45           | Mauretania              | 5.62            | 0.00          | 5.62            |
| 46           | Mongolia                | 5.32            | 0.00          | 5.32            |
| 47           | Macedonia               | 5.11            | 0.00          | 5.11            |
| 48           | Republic of Moldavia    | 5.11            | 0.00          | 5.11            |
| 49           | Romania                 | 4.60            | 0.00          | 4.60            |
| 50           | Uganda                  | 4.35            | 0.00          | 4.35            |
| 51           | Nepal                   | 4.09            | 0.00          | 4.09            |
| 52           | Chad                    | 3.83            | 0.00          | 3.83            |
| 53           | Southeast Europe        | 3.49            | 0.00          | 3.49            |
| 54           | Ecuador                 | 3.07            | 0.00          | 3.07            |
| 55           | Colombia                | 3.07            | 0.00          | 3.07            |
| 56           | Gambia                  | 2.56            | 0.00          | 2.56            |
| 57           | CAR                     | 2.56            | 0.00          | 2.56            |
| 58           | Rwanda                  | 1.53            | 0.00          | 1.53            |
| 59           | Central Asia NA         | 1.28            | 0.00          | 1.28            |
| 60           | East Timor              | 1.02            | 0.00          | 1.02            |
| 61           | Namibia                 | 0.77            | 0.00          | 0.77            |
| 62           | Malawi                  | 0.51            | 0.00          | 0.51            |
| 63           | Morocco                 | 0.33            | 0.00          | 0.33            |
| <b>Total</b> |                         | <b>1,026.25</b> | <b>276.20</b> | <b>1,302.45</b> |

# ADVISORY AND OTHER SERVICES.

THE SERVICE IS WHAT MATTERS.





### INFORMATION AND CONSULTANCY.

There is brisk demand for information and consultancy on KfW financing. Our customers want to be informed quickly and receive individual advice.

#### MORE SERVICE ON THE INTERNET.

The new service platforms on the Internet which we launched in 2001 have developed successfully. The Internet Consultancy Service under [www.co2online.de](http://www.co2online.de), which gives key figures on energy conservation in residential buildings, was developed in cooperation with partners and is particularly frequently used. But the KfW redemption plan calculator for our housing promotional loan programmes is also well used. So KfW is preparing more dialogue-oriented Internet platforms, particularly for the wide circle of customers for our housing programmes. One example is the theme of promoting home ownership.

#### COMING CLOSER TO THE CUSTOMER.

KfW's attendance at trade fairs was an important building block in our consultancy for customers again in 2001. In order to create a pleasant atmosphere for the consultancy KfW's trade fair stand was redesigned, and the bank appeared with it at 27 trade fairs. Around 12,000 visitors were given information on our loan programmes from our expert consultants. There was most demand for information on the energy conservation programmes and the promotion of renewable energy sources.

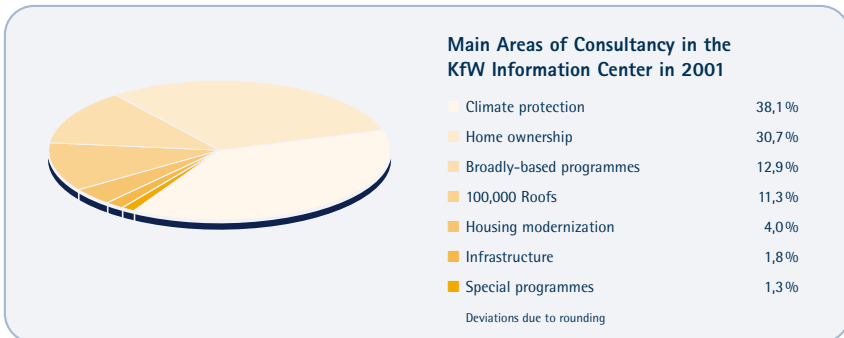
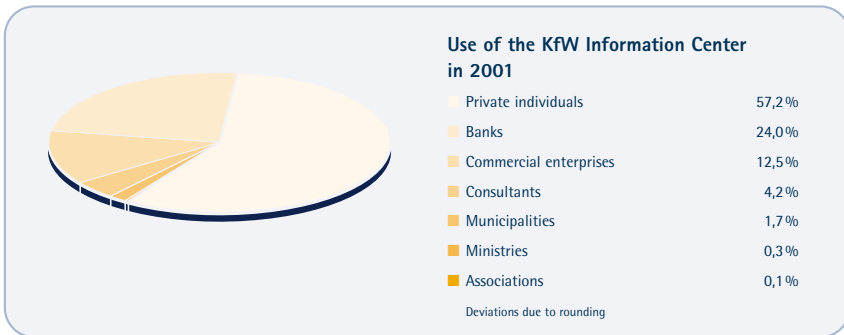
#### BUILDING UP CONSULTANCY SERVICES ON SPECIFIC THEMES.

In the future KfW will provide consultancy services on specific topics to complement its promotional programmes – "Commercial Financing/Environmental Protection", "Technology and Participation Promotion", "Building/Home Ownership/Climate Protection" and "Communal Financing". The new structure is transparent and will enable our customers to find "their" promotional product and "their" advice much more precisely. The spectrum will range from rapid information on the Internet to special personal advice for complex projects.

### STRONG DEMAND FOR THE INFORMATION CENTER.

KfW's Information Center showed the way to finance at favourable terms for more than 200,000 enquirers in 2001 as well. Private households were by far the largest group of users of our telephone service, accounting for far more than

50% of all the calls; second came banks. Promotion of climate protection and energy conservation measures and finance for home ownership were the subjects that most interested callers last year.



## SERVICES ON BEHALF OF GOVERNMENT AUTHORITIES.

### TASKS IN CONNECTION WITH GERMAN UNIFICATION.

On behalf of the Federal Government and the German federal states KfW undertook to handle the implementation of the Law on Assistance with Old Debts in 1993. The purpose of the law was to release the Eastern German housing sector of part of its debts and so make the housing enterprises there better able to borrow and invest. In return the housing enterprises undertook to renovate apartments and privatize 15% of their stock. This made a considerable contribution to increasing the ratio of owner-occupied housing in Eastern Germany.

The second amendment to the Law in August 2000 brought further relief in regard to the obligation on the housing enterprises to privatize part of their stock. Hence, so far more than 1,600 housing enterprises have been given confirmation that they have fulfilled all their privatization

obligation or cannot do so for reasons beyond their control. So far around EUR 800 million have been allocated to the Inherited Debt Fund (ELF) out of the receipts from privatization.

The amendment includes an ordinance empowering the Federal Government to grant further relief from old debts if housing is being demolished or reduced. Under the Ordinance on Assistance with Old Debts housing enterprises can apply for and be granted more assistance with old debts if they are facing insolvency because a considerable percentage of their housing stock is standing empty. The ordinance will thus make an important contribution to solving the problem of empty housing in Eastern Germany. On behalf of the Federal Government KfW has undertaken to implement the Ordinance on Assistance with Old Debts, which came into force on January 1, 2001.

### STOCK OF OLD CLAIMS REDUCED.

KfW is handling the stock of old claims that passed to the Federal Government on German unification. Of the original volume of EUR 3.3

billion only EUR 125 million remained by the end of 2001.

### CLAIMS RESULTING FROM FOREIGN TRADE BY THE FORMER GDR.

On behalf of the Federal Government KfW is handling the claims on a number of foreign states resulting from foreign trade by the former GDR. They amount to about EUR 9.2 billion. Again on behalf of the Federal Government the bank is

also handling claims on German exporters for reimbursement arising out of amounts wrongly offset against transfer rubles. In 2001 a total of around EUR 264 million was collected on these claims for the Federal Government.

#### THE COMPENSATION FUND FOR CURRENCY CONVERSION.

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

On December 31, 2001 the compensation claims assigned amounted to EUR 45.6 billion.

Of this amount EUR 43.6 billion were converted to bearer bonds. The compensation liabilities amount to EUR 1.9 billion. After deduction of the redemption payments already made a balance of EUR 4.5 billion remains to the Inherited Debt Fund.

#### THE AGENCY FOR OLD MUNICIPAL LOANS AND SPECIAL TASKS RESULTING FROM THE CURRENCY CONVERSION MBH (GAW).

GAW deals mainly with special tasks that arise in the territory of the former GDR in connection with the currency conversion on July 1, 1990. They include identifying persons entitled to make claims on foreign currency accounts held by non-residents at the time. The administration of

the old credits for social facilities is already completed.

KfW continued to handle the business for GAW in 2001. The Federal Government held 100% of the shares in GAW and in March 2001 these were transferred to KfW.

#### KfW-FINANZIERUNGSPLANUNGS- UND BERATUNGSGESELLSCHAFT MBH (FuB).

FuB was merged with GAW with effect backdated to January 1, 2001. On that date its activities in handling business for the Federal Agency for Special Tasks resulting from Unification (BvS) also passed to GAW. The main components of this business are:

- reprivatization
- closing companies that are in liquidation (handling participations)
- managing the contracts for the supervision and implementation of the obligations under privatization contracts.

In contract management, which is the biggest field of operation for KfW-FuB, the obligations and claims resulting from 614 out of 2,700 contracts could be finally settled.

With effect from January 1, 2001 KfW-FuB was commissioned to handle more tasks. Chief among these are the accounting for BvS and drawing up a business plan.

In February 2002, in the course of the merger, GAW was renamed Finanzierungs- und Beratungsgesellschaft mbH (FuB).

#### COMPENSATORY FUND FOR SECURITIES TRADING ENTERPRISES (EDW).

EdW insures small investors against loss of their claims on securities transactions up to a minimum amount laid down by law. For five of the member companies of EdW the Federal Banking

Supervisory Authority had to confirm in 2001 that compensation had to be made. On December 31, 2001 1,234 securities trading firms were members of EdW.

#### SUPPORT FOR THE TRANSFORM PROGRAMME.

In 2001 as well KfW played a major part under a mandate from the Federal Government in coordinating and handling the TRANSFORM consultancy programme. Under this programme Central and Eastern European states are given advice on the transition to the market economy. The Federal Government earmarked a total of EUR 41 million for this programme. EUR 23 million, that is more than half of the funds, were refinanced through

KfW and used for more than 180 projects. As before the main focus of the promotion was on improving the general conditions in the transition countries, making the private corporate sector in these countries more efficient (including preparing joint ventures), promoting the financial sector and preparing the advanced reform countries for entry to the EU.

#### CONSULTANCY FOR PROMOTIONAL BANKS.

Most consultancy projects are now concluded or very far advanced. Hence continued consultancy for promotional banks in the countries of Central and Eastern Europe, especially Southeastern Europe, was only needed in isolated cases. The main

focus of KfW's cooperation with the regional promotional banks is now on funding their national loan programmes, particularly for local small and medium-sized firms.

#### SUPPORT FOR PRIVATIZATIONS.

At the end of 2001 KfW held 12.1% of the shares in Deutsche Telekom AG and 18.8% of the shares in Deutsche Post AG. The settlement of the financial transactions with the Federal Government for the placing of Deutsche Telekom AG shares on the secondary market, which KfW handled in 2000 (DT3) and the initial public offering (IPO) of Deutsche Post AG on the stock market was made in the year under review, bringing these privatization transactions to an end.

Internally KfW made extensive preparations last year for the distribution of the bonus shares

from DT3 as per 31 December, 2001 at the end of the holding period. The shares were sent out in the first few months of 2002. Altogether around 12 million bonus shares were distributed.

The difficult environment for the capital markets in 2001 did not permit transactions with KfW's portfolio of shares. But there is agreement with the Federal Government that the successful privatization policy will be continued at a suitable time.

# FUNDING.

## Our Strategy Pays Off as KfW strengthens its Position as Issuer Worldwide.

### A HIGHER ISSUE VOLUME FOR A NEW POSITION IN THE CAPITAL MARKET.

At the start of 2001 KfW set new signals for its activities in the capital market when it signed a funding agreement with DtA in January. The two banks will issue jointly in the capital market under the umbrella of KfW, and the issue volume will be around EUR 40 billion annually.

In addition, after taking over DEG KfW also undertook its funding.

KfW and KfW International Finance raised longer-term funds totalling EUR 38.6 billion in the capital markets. That is clearly more than in 1999 (EUR 35.5 billion) and 2000 (EUR 32.7 billion). EUR 18.5 billion were raised in the euro market; that is also an increase over the previous year (EUR 12.4 billion). The newly introduced € Benchmark Programme alone accounted for EUR 15 billion.

#### KfW Borrowing in Domestic and Foreign Capital Markets<sup>1)</sup> EUR billion<sup>2)</sup>

|                              | 2000        | 2001        |
|------------------------------|-------------|-------------|
| <b>In EUR</b>                | <b>12.4</b> | <b>18.5</b> |
| <i>Of which: loans</i>       | <i>4.0</i>  | <i>0.7</i>  |
| <i>securities issues</i>     | <i>8.3</i>  | <i>17.8</i> |
| <b>In foreign currencies</b> | <b>20.4</b> | <b>20.0</b> |
| <b>Total</b>                 | <b>32.7</b> | <b>38.6</b> |

<sup>1)</sup> Maturity of more than one year; KfW and KfW International Finance Inc., USA

<sup>2)</sup> Foreign currencies converted to euros at exchange rates on day of borrowing

### KfW € BENCHMARK PROGRAMME ESTABLISHED AS AN ALTERNATIVE TO GOVERNMENT BONDS.

In establishing the € Benchmark Programme KfW has opened a new chapter in its issue history. The bank announced that at least two large issues with maturities of five and ten years would be the key element in the new programme. They were designed to act as surrogates for government bonds in every respect. The first two issues met with such good response in the market that a third was successfully launched.

The Benchmark bonds have performed excellently against other Eurozone issues. Thus, KfW's concept of quality, transparency, liquidity and performance has been honoured by the market. The trading performance and the sales figures show that KfW has achieved the aims it set itself. Trade on Euro-MTS, the electronic platform for government bonds, was a complete success, and KfW's bonds are among the leaders in trading volumes.

#### The € Benchmark Programme 2001

|                 | EUR billion | Maturity          | Interest rate in % |
|-----------------|-------------|-------------------|--------------------|
| € Benchmark I   | 5.0         | July 4, 2011      | 5.00               |
| € Benchmark II  | 5.0         | August 18, 2006   | 4.75               |
| € Benchmark III | 5.0         | November 26, 2004 | 3.75               |

#### US DOLLAR PRESENCE NOTABLY INCREASED.

KfW's issue activity in foreign currencies amounted to the equivalent of EUR 20 billion in 2001 (EUR 20.4 billion). The US dollar predominated, and issues in this currency were increased markedly, to USD 12.6 billion from USD 7.6 billion in 2000. So the share of the US dollar in the total issue volume rose from 24% in the previous year to 37%. Borrowing in pounds sterling, on the other hand, fell from 29% in the previous year to 8%, owing to the less favourable market situation for Triple A issuers.

KfW clearly expanded its position in tailor-made issues for institutional investors (private

placements). KfW and KfW International Finance issued a total of 303 private placements in 2001 for a volume of more than EUR 8.4 billion. Again it was evident that in the Japanese market demand for structured products is particularly high. The large number of 56 private placements in Yen in the previous year was greatly exceeded at 219.

To hedge the risks on funding in foreign currencies and control the risks of changes in interest rates KfW uses derivative products. New cross-currency swaps were made for a total of EUR 60.9 billion.

#### KfW Borrowing in 2001 by Currency<sup>1)</sup>

|                 | EUR billion <sup>2)</sup> | %          | Billion per currency |
|-----------------|---------------------------|------------|----------------------|
| EUR             | 18.5                      | 48         |                      |
| Pounds sterling | 3.1                       | 8          | 1.9 GBP              |
| US dollars      | 14.1                      | 36         | 12.6 USD             |
| Japanese Yen    | 2.6                       | 7          | 279.5 JPY            |
| Others          | 0.3                       | 1          |                      |
| <b>Total</b>    | <b>38.6</b>               | <b>100</b> |                      |

<sup>1)</sup> Maturity of more than one year; KfW and KfW International Finance Inc., USA

<sup>2)</sup> Foreign currencies converted to euros at exchange rates on day of borrowing

## SUCCESSFUL CONCLUSION OF THE PROGRAMME TO EXCHANGE STERLING BONDS.

The sterling market has become an important source of funding in foreign currencies for KfW in recent years. Most of the issue activity in pounds sterling is in long maturities. The issue amount of these bonds is increased, depending on market developments. This is a widespread and greatly esteemed practice for long-term bonds, particularly in the sterling market. It enables the continuous investment need of institutional investors to be met regularly and at the same time creates the high level of liquidity required.

However, if the proposal from the European Commission for a directive on the taxation of interest earnings were realized it would no longer be possible to increase bonds issued before March

1, 2001. Hence KfW has decided to offer a programme to change old KfW sterling bonds into new KfW sterling bonds, which can be increased if market developments are favourable. The conversion programme has ensured that the new sterling bonds offer the usual liquidity right from the start. Altogether bonds (with maturities from 2015 to 2036) for a volume of GBP 8.36 billion were offered for conversion. More than 99% of the investors accepted the offer – a percentage far in excess of all expectations.

This conversion programme is KfW's first implementation of its announcement that its note programme would be opened to other currencies than the euro.

## MONEY MARKET ACTIVITIES REMAIN ON A HIGH LEVEL.

In the money market, too, KfW can look back on a successful year. In the euro commercial paper market the bank was again able to confirm its position as one of the leading issuers. Investors here have the possibility of acquiring a product in the short-term segment of the market that is extremely flexible in regard to maturities and currencies and is backed by the standing of the Federal Republic of Germany. In 2001 the bank was able to conduct 295 transactions to a total volume of EUR 25.1 billion under the Multi-

Currency Euro Commercial Paper Programme. The funds were used for the bank's short-term liquidity management. The average utilization rose by 7% over the previous year to around EUR 7.6 billion. In addition, KfW International Finance is operating successfully with a commercial paper programme in the United States, which is the biggest commercial paper market in the world. Here just under 900 transactions were made to a volume of USD 26.5 billion.



#### OUTLOOK FOR 2002.

KfW is again expecting a total funding volume of about EUR 40 billion in 2001. The € Benchmark Programme will be continued in 2002 with an issue volume of at least EUR 15 billion. It will be KfW's aim next year to strengthen the outstanding position it achieved in 2001 as an issuer in Europe.

Now that KfW has established itself worldwide as a substitute for government bonds in the euro it will be our primary aim to improve KfW's position with investors in the US dollar. For 2002 we therefore intend to make our activities in the US dollar capital market more transparent as well.

#### EXPANDING ACTIVITIES IN INVESTOR RELATIONS.

In 2001 KfW noticeably increased the transparency of its issue strategy. This also involved strengthening communications with the capital markets. For that reason the bank built up an Investor Relations department last year. It is the direct contact point for investors, and its aim is to ensure a continuous supply of information to capital market participants. In 2001 numerous contacts with investors were made through presentations

in Europe, North America and Asia, and these activities will be further expanded in 2002.

Besides the investor relations information available on the Internet under [www.kfw.de](http://www.kfw.de), we have operated an investor relations hotline for some time under +49 (0) 69/74 31 22 22. Investors can obtain information at any time through the hotline on KfW and its securities – or by e-mail from [kfw.fm@kfw.de](mailto:kfw.fm@kfw.de).

### OPTIMIZING CREDIT RISK MANAGEMENT.

KfW has reorganized its processes and information systems for the compilation, evaluation and control of its credit risks. In this connection several large-scale IT projects were carried out. The main

focus was on rating, portfolio management, pricing, the credit risk data warehouse and limit management.

### REDUCING THE MARKET PRICE RISK.

In connection with the expansion of its range of instruments to control the risk of changes in interest rates KfW has introduced the standard software RiskPro by IRIS AG in several stages. This supports the up-to-date and differentiated

statement of interest risk positions, the evaluation of open positions according to the value-at-risk concept and simulation on the basis of different market and strategy scenarios.

### OPERATIONAL RISKS REDUCED.

The conversion of the network to the modern Gigabit Ethernet standard brought a clear increase in performance. The use of redundant network components also considerably improved availability.

The dynamic distribution of the IT services between two computing centres firstly optimized the load balancing; secondly, it has made certain that – together with the storage system that is

already secured against failure – if one of the computer centres fails the central IT services will continue to be available.

A project to minimize the risks of the IT operating processes was started in 2001. Gradually all the critical processes are being converted to ITIL, the internationally recognized standard for IT processes.

### THE SUMMIT STANDARD SOFTWARE INTRODUCED.

KfW is gradually introducing the Summit standard software for the trading, position steering, assessment, handling and invoicing of derivatives

(OTC), and for money market transactions and securities business. At the end of 2001 the entire range of functions was available for derivatives.

#### MORE COST TRANSPARENCY WITH SAP.

Since mid-2001 KfW has been one of the first banks to use SAP for process cost accounting. The project has enabled much greater transparency to be achieved.

#### DEG TAKEOVER OPENS UP SYNERGIES.

With the acquisition of DEG the basis was also created for synergies in the IT field. The first result is the integration of DEG's Internet and e-mail services in KfW.

#### SUCCESSFUL CONVERSION TO THE EURO.

The conversion to the euro was successfully completed to the required deadline. Thanks to extensive preparations and intensive integration tests all the systems affected are now working on the basis of the new currency.

# THE MEN AND WOMEN ON OUR STAFF.

It Depends on Them – KfW invests more in the Basis of Its Success.

## THE DEVELOPMENT IN THE NUMBER EMPLOYED AND THE PERSONNEL STRUCTURE.

KfW increased its staff again in 2001 by taking on 158 new employees. At the end of 2001 the bank employed 2,190 men and women, which is 7.8% more than a year before. The number employed in Frankfurt rose by 166 to 1,820, which is 10% over the previous year. The number employed in our Berlin Branch and our regional offices fell again, by 8 to 370, that is 2.1%. Altogether the development in personnel in both Frankfurt and our branches was in line with the trend of the previous year.

The growth in Frankfurt was nearly evenly divided among all our fields of business. In the staff departments the increase in the number of staff was, as in previous years, primarily to expand our information technology and IT coordination. Another focus was on building up new departments. The development of KfW to a group, for example, required a "Task Management and Organization" department to be set up. This new field of operations will be concerned with the integration of the group enterprises and inter-departmental cooperation and organization. Another new department, "Internal Auditing" and a "Restructuring" department were also set up.

In our Berlin Branch the number employed has remained almost constant because the re-

duction in the number of jobs in the old business was compensated by the increase in the number of staff for the housing construction programmes, that are growing at a dynamic rate.

The share of staff not on collective wage agreements at KfW has risen markedly and is now 66.5% (63.5%). Although the share of women has fallen slightly at 47.8% after 48.2%, the share of women in the staff on performance-related salaries has risen again, to 35.5% after 34.2%.

The share of severely handicapped personnel has risen by 0.1% to 5.95. In view of the growth in the number employed that means ten new jobs for the severely handicapped. KfW is still clearly above the legal requirement of 5% in its commitment to the integration of severely handicapped staff.

Expenditure on personnel as a whole rose by 6.2% in 2001 to EUR 182.8 million (EUR 172.2 million). Wages and salaries rose by 15.0% to EUR 137.9 million (EUR 119.9 million). Social charges rose by 6.3% to EUR 18.1 million (EUR 16.8 million). Expenditure on provision for pensions fell to EUR 26.8 million (EUR 35.5 million). EUR 14.1 million (EUR 12.6 million) was paid out to pensioners and surviving dependents.

## PROMOTION OF JUNIOR STAFF.

KfW again directed special attention to further training and promotion for its staff, and to obtaining well qualified recruits. The bank therefore again clearly increased the number of apprentices, and in the year under review 24 young people (21) began their occupational training in the bank. At the start of the new training year in autumn 2001 60 apprentices were undergoing their first occupational training.

In Eastern Germany young people are still experiencing particular difficulties in finding a training place. Hence for some years KfW has given

preference to applicants from Eastern Germany in filling training places. They now account for 60% of all our apprentices.

The number of participants in our internal one-year trainee programmes rose from 60 to 63. The young academics are being prepared for their future work as loan officers, project managers in Financial Cooperation or officers in our staff departments. At the end of the year KfW employed a total of 105 trainees and apprentices. Last year the number was 96.

ASSESSMENT AND DEVELOPMENT OF POTENTIALS.

In future, too, KfW wishes to fill management positions mainly from its own ranks. The potential assessment procedure developed two years ago enables men and women to be assessed at an early stage; they can then be promoted and prepared for management tasks.

Of 255 men and women who applied 222 have already been assessed by their superiors.

214 have had the required interview with the personnel department and 173 have attended the potentials development workshop, where they were given a differentiated picture of their strengths and weaknesses. Further steps for their personal development were then discussed. So last year 27 of these men and women could be entrusted with a management task.

The Development in the Number Employed

|                   | 1995         | 1996         | 1997         | 1998         | 1999         | 2000         | 2001         |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Frankfurt am Main | 1,306        | 1,357        | 1,382        | 1,437        | 1,516        | 1,654        | 1,820        |
| Berlin branch     | 378          | 406          | 372          | 390          | 384          | 378          | 370          |
| <b>Total</b>      | <b>1,684</b> | <b>1,763</b> | <b>1,754</b> | <b>1,827</b> | <b>1,900</b> | <b>2,032</b> | <b>2,190</b> |

PERSONNEL DEVELOPMENT AND INTERNAL FURTHER TRAINING.

KfW offers its staff a wide range of internal further training courses. In addition to professional qualifications interest is increasingly focusing on feedback talks to improve personnel management and cooperation. In this connection preparations are being made to introduce a management staff assessment. Team formation and development measures are also in the pipeline.

They are to increase the ability to engage in an open exchange of information and cope objectively with conflicts, and promote joint problem analysis and solution. So the measures are also part of the development of our organization, to enable the bank to respond rapidly to new market requirements.

THE OCCUPATION AND A FAMILY AUDIT.

Last year KfW received the basic certificate as part of the "Occupation and a Family" audit. This was under an initiative supported by the Hertie Charitable Foundation and designed to promote a family-conscious personnel policy. In this orientation KfW is responding to the change in social values that has taken place in regard to

the importance of an occupation and a family for the individual. A family-conscious personnel policy also increases the motivation of the men and women on our staff and binds them to the bank during the time spent on family leave. At the same time it makes the bank more attractive on the labour market.

The audit is intended to make all the members of staff more aware of the tensions between work and a family, and so enliven internal discussion that can lead to new and practicable solutions. In addition, an exchange of experience between the companies involved in the audit should encourage the implementation of the ideas in practice.

The audit lasts for three years, and in the process the facilities that already exist, like the bank's kindergarten, are to be assessed for their suitability and how up to date they are. But regulations like release from work under the "Occupation and a Family" agreement will also be appraised. For this purpose the staff were given two comprehensive questionnaires on the key points of more flexible working time, telejobs at home, part-time work, personnel development

and equality of opportunity. The bank hopes to obtain from this an exact idea of the wishes of its staff in regard to a family-conscious personnel policy. The evaluation of the questionnaires is not yet completed.

As part of the audit KfW is testing the possibilities for "part-time work in management functions" in two middle management posts. In each two part-time women members of staff share a management job. Both jobs are in our business area "Promotion of the Developing Countries and the Transition Countries", where extensive business trips for the bank are frequently necessary. The need for deputizing means that it is difficult here to combine family and career responsibilities. The initial experience with the experiment has been positive.

#### FURTHER DEVELOPMENTS IN THE SYSTEM OF REMUNERATION AND PENSIONS PROVISION.

The bank's remuneration system to date has been based on job description, job assessment and salary scales commensurate with job requirements. Building up on these well-proven bases a new system of remuneration was evolved and introduced in 2001. As well as the traditional criteria it takes more account of individual performance and corporate success. In future these will also determine the level of the new variable salary components.

The annual talk with each member of staff has also been further developed. With the help of a strengths-and-weaknesses analysis cooperation over the past year is reviewed and new targets are agreed for the coming year. This well-proven instrument has been combined with the new remuneration system. Another innovation is the assessment talk at the end of the year, in which the individual development in salary is explained. This makes the new remuneration system more transparent, and so it improves cooperation between management and staff.

#### A NEW SYSTEM OF PROVISION FOR OLD AGE.

To avoid gaps in provision for old age it is becoming increasingly important to make occupational and private provision in addition to the statutory system. With its new system of provision for old

age KfW is taking account of the development in the statutory pensions system.

In addition to pensions provision financed by the employer KfW is now offering its staff

the additional possibility of contributing to an employee-financed pensions scheme in the form of a pensions building block system based on contributions. Part of salaries can be converted into a direct insurance policy or a deferred compensation scheme. From 2002 the new system will also include the offer of direct insurance in accordance with the new pensions legislation of the German Government.

With its provision for pensions KfW is creating conditions that will enable its staff to take responsibility for maintaining their standard of living when they retire, independent of the developments in the statutory pensions insurance system.

### EXTENSIONS TO OUR PREMISES.

In Frankfurt work started in 2001 on the new "East Arcade" building along Palmengartenstrasse. The new building will have seven storeys and provide around 11,700 square metres of office space for around 300 of our staff. The building will also contain thirteen apartments. The new building will implement a technical and ecological concept that takes account of the latest knowledge. In its construction and operation it will be environmentally-friendly and economical with

resources. The declared aim is to keep to the special primary energy requirement of max. 100 kWh/sq.m. The shell was finished in February 2002 and the building is to be ready for occupation in autumn 2002.

In Berlin the adjoining building to our Berlin Branch on the corner of Gendarmenmarkt has been purchased. KfW is now using the entire area in this historic centre of Berlin.

### THANKS TO THE MEN AND WOMEN OF OUR STAFF AND THE STAFF COUNCILS.

Our thanks and acknowledgement go to all the men and women on our staff, who have worked with commitment and success for the concerns of KfW. Their performance has made an important contribution to the promotion of the German economy and the developing countries.

We have discussed the current personnel, social, organizational and economic issues in regu-

lar meetings with the relevant Staff Councils. The Staff Councils have worked with commitment within their mandate for the interests of the staff. We thank the General Staff Council and the local Staff Councils for the good and objective cooperation shown in a spirit of confidence during the past year.

### IN MEMORIAM.

We regret to announce the deaths of the following members of our staff in 2001: Beate Keller, Ute Lauchstädt, Irene Mauritz, Dieter Russ and of our pensioners Doris von Kroge-Weingart, Iris

Schulz, Walter Buckow, Eberhard Ketzler, Helmut Stange, Wilhelm Graf zu Stollberg-Wernigerode. We shall always remember them with gratitude.

# DEG IN THE KFW GROUP.

## STRONGER IN PARTNERSHIP – DEG JOINS THE KFW GROUP.

### DEG'S PROMOTIONAL WORK.

DEG is commissioned to promote the build up and expansion of the private sector in the developing countries and the reform countries (partner countries). It does this by cofinancing corporate investment and offering complementary consultancy. All the projects promoted must meet the

criteria of profitability, environmental and social compatibility and developmental sustainability.

Since it was founded in 1962 DEG has cofinanced a total of 1,025 companies in 121 countries. It has contributed EUR 4.7 billion in finance to mobilize a volume of investment totalling EUR 32.2 billion.

### A NEW SHAREHOLDER.

The change in shareholder in 2001 was an outstanding and decisive event in the history of DEG, which goes back nearly 40 years. KfW's takeover of the shares in DEG is in accordance with the German Government's political objective of organizing development cooperation more efficiently. It is part of the reorganization of the promotional institutions engaged in Federal development policy work.

As the fields of activity of KfW and DEG are largely complementary the new partnership will produce a high degree of synergy. DEG retains its independence in its premises in Cologne and will continue to fulfil its development policy mission unchanged. Within the KfW banking group it is the specialist on equity participation and mezzanine financings.

### NEW COMMITMENTS REACH A PEAK.

The business climate in 2001 was marked by strong cyclical slumps worldwide and a cumulation of economic and political turbulence in our partner countries. Nevertheless, DEG achieved a peak volume of new commitments in its financing.

Altogether, DEG made financing commitments totalling EUR 412 million (EUR 360.1 million) for corporate investment in the private sector in developing countries and transition countries. That is an increase of 14% over the previous year.

To finance the new business EUR 409 million (99.3%) was provided from the bank's earnings and capital market funds (transactions using the bank's own funds) and EUR 3 million (0.7%) from Federal Government funds (trust business).

The excellent financial result for 2001 shows that DEG's long-term finance, and particularly its structuring and rehabilitation know-how, are meeting with increased demand, especially in difficult countries.



#### REGIONAL AND SECTORAL FOCUS.

The structure of business during the year under review was largely characterized by continuity in investment policy. The investment projects cofinanced were spread among a total of 33 countries. The main regional focus was in Latin America with 36%, followed by Asia (without the Caucasus) and Sub-Saharan Africa, each with 22%, and then Europe/Caucasus/Turkey with 20%.

Particular regional and development policy accents were set as new business in Sub-Saharan Africa reached its highest level so far, and as promotion of the private sector in the Southeast European partner countries was further intensified.

Sectorally, commitments were concentrated in manufacturing with 43.5%. Development of the financial sector took 31.6%. In this sector a loan programme structured for the private sector for complementary occupational training and study courses in South Africa was cofinanced.

A total of 16.7% of the new commitments was provided for infrastructure projects (energy,

transport, communications, health care and education). Here DEG concentrated on expanding mobile communications networks in Africa. Another focus was on expanding innovative education services in the Dominican Republic, as a cost-efficient supplement to state education facilities.

The agricultural sector including forestry accounted for 4.8% of the total volume. Tourism projects and other services accounted for a total of 2.7%, while one mining project took 0.7%.

DEG committed EUR 66 million for equity participation finance during the year under review. The share of the loans amounted to EUR 345.7 million, of which EUR 26.6 million was provided as loans similar to equity holdings. This brought the input of venture capital in the form of equity and mezzanine financings to a total of EUR 92.6 million and 22.5% of the total volume. EUR 0.3 million was committed for guarantees.

#### PROMOTIONAL PROGRAMMES AND CONSULTANCY.

In 2001 DEG provided consultancy services for German and foreign companies and institutions to promote cooperation in the private sector in partner countries. It made its know-how available for the preparation, structuring and implementation of investment projects in developing countries and in the transition countries in Central and Eastern Europe.

Under the Public-Private Partnership (PPP) of the Federal Ministry of Economic Cooperation and Development (BMZ) with the private sector DEG signed contracts for 54 projects with German companies during the year under review. The projects were promoted by DEG with funds totalling EUR 8.1 million from the German

Government. Together with the private funds mobilized, which amounted to EUR 17 million, a total project volume of EUR 25.1 million was realized.

On behalf of BMZ DEG offers a special Businesses Start-Up Programme for specialists from developing countries who are returning to their home countries. Revolving loan funds have been set up in selected partner countries since the mid-1970s, from which new entrepreneurs can be supplied with start-up capital at market conditions through local partner banks.

DEG is also cooperating with the German Agency for Technical Cooperation (GTZ) and KfW in the Working Group on the Reconstruction of

Southeast Europe set up by BMZ. The working group maintains offices in Bonn, Pristina (Kosovo) and Belgrade. Its task is to offer the private sector in Southeast Europe comprehensive advice on financing possibilities. In addition, 44 local business start-ups in Kosovo were promoted with funds under the Stability Pact.

Under the Stability Pact for Southeast Europe DEG was commissioned by BMZ to draw up a master plan for the development and implementation of tourism in Croatia and Montenegro. The project will run for 4 years and will be promoted to a total of EUR 3.5 million.

#### IMPROVEMENT IN THE RESULT.

DEG achieved an improvement in its usual business activity of 8%, bringing the result to EUR 24.2 million (EUR 22.4 million). After tax the net income for the year was EUR 20.6 million (EUR 35.6 mil-

lion). The net income for the year is the balance sheet profit, and it is allocated to the special reserves to strengthen the equity base. According to the by-laws no dividend may be paid.

#### OPTIMIZING THE FINANCIAL POSITION.

Many investors have postponed implementing their long-term plans since the terrorist attacks on September 11, 2001 and the subsequent military action. This has slowed down the disbursement of contracted financing considerably, and disbursements for project finance fell in 2001 to EUR 244.1 million (EUR 277 million). Of this, transactions using the bank's own funds accounted for EUR 236.5 million (EUR 275.3 million) and trust business for EUR 7.6 million (EUR 1.7 million).

All the disbursements for investments using the bank's own funds were financed by cash reflows. These come from sales of equity holdings and loan redemptions, and they also include handling charges. During the year under review they amounted to EUR 245.1 million (EUR 212.1 million). In view of the high level of reflows and the decline in disbursements no new funds were raised on the capital market. In 2000 EUR 48.9 million was raised on the capital market.

#### THE DEVELOPMENT IN PERSONNEL.

The number of men and women employed by DEG rose from 291 at the end of 2000 to 298 at the end of 2001. Six members of staff were employed during the year under review as heads of the foreign offices in Bangkok, Beijing, Jakarta, Johannesburg, New Delhi and Sao Paulo. Al-

together 20 members of staff worked on implementing special BMZ promotional programmes.

For the first time the number of women on the staff (151) was higher than the number of men (147). The relation has shifted from 48%:52% to 51%:49%. The average age was 43.

#### OUTLOOK FOR THE COMING YEAR.

The change in shareholder has opened up more scope for DEG to design and develop its business. With optimal coordination and the utilization of the key competences of all the members of the KfW Group DEG will be able to offer its customers a better range of services. Use of the larger network of foreign offices will enable more intensive acquisition of new projects on the spot.

Against that background DEG is planning to expand its new business by around 10% in 2002, bringing it to EUR 450 million.

To strengthen DEG's earnings potential in the equity participation business the share of equity holdings in the available equity capital is to be increased further in the next few years. A high standard of quality in the selection of the risk engagements must be ensured.

A balanced distribution of the new business between continents will take due account of the development policy mandate and the objectives in regard to risk. In cooperation with KfW DEG will continue to expand its risk management system, in regard to the additional requirements under Basel II as well.

In view of the high potential demand in the long-term financing business and the brisk interest in DEG's special structuring and rehabilitation possibilities in complex project financings DEG is assuming that even with moderate growth a satisfactory development in earnings can be achieved.

# THE SITUATION OF KfW AND THE KfW GROUP IN 2001.

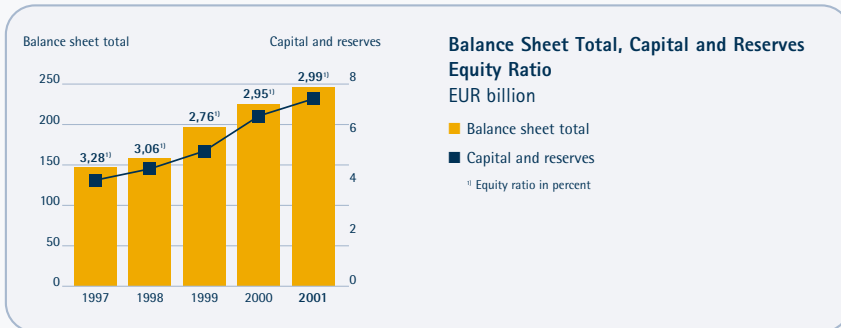
## SURVEY.

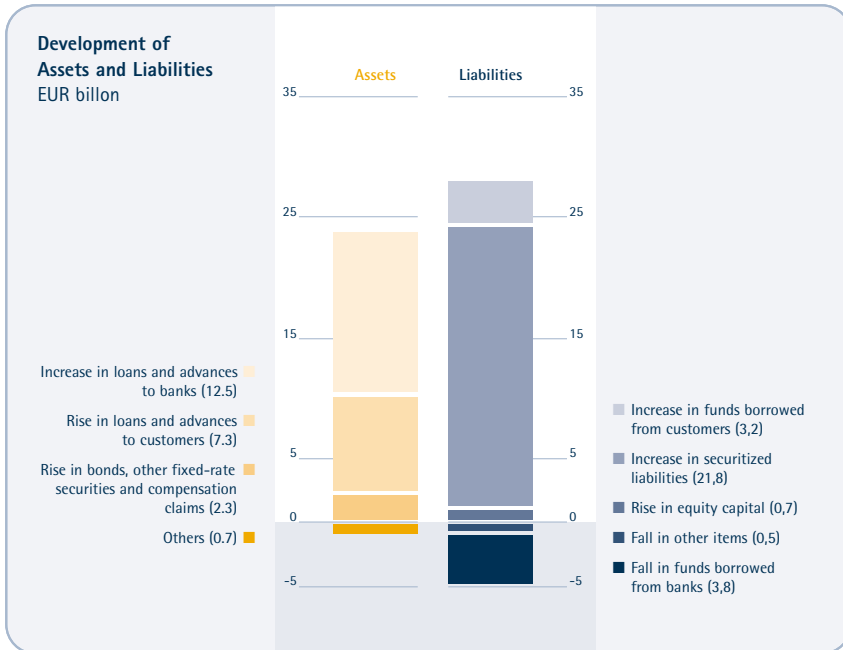
The figures in the financial statements for the Group are mainly determined by those for Kreditanstalt für Wiederaufbau (KfW). The Report on the Situation shows the development for the Group. Any major deviations between the course of business and the situation of the Group and KfW are explained.

The consolidated financial statements incorporate the financial statements of KfW, Finanzierungs- und Beratungsgesellschaft mbH (FuB), KfW International Finance Inc. (KfW Finance) and DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) at 100%. Owing to the inclusion of DEG in the Group consolidated

financial statements for the first time the previous year's figures have been adjusted accordingly for better comparison. IKB has been included in the consolidated financial statements for the first time as an associated enterprise.

In the business year the Group balance sheet total was again increased markedly, by EUR 21.4 billion (10%), bringing it to EUR 246.2 billion. The continued dynamic growth in the lending business in particular brought loans and advances to banks and customers up by EUR 19.8 billion or 11%. The rise of EUR 2.3 billion (12%) in bonds and other fixed-rate securities, bringing these to EUR 22.4 billion, was a further major factor.





Income from operations to the Group before risk provision rose by EUR 74 million to EUR 1,028 million. The main factors were a rise in net interest income of EUR 120 million to EUR 1,209 million, and the increase in net commissions of EUR 18 million to EUR 185 million. The rise in administrative expenses of EUR 49 million to EUR 382

million counterbalanced this to some extent. In response to developments in the national and the world economies risk provisions were increased from EUR 634 million to EUR 783 million. The KfW Group achieved a net income for the year of EUR 207 million.

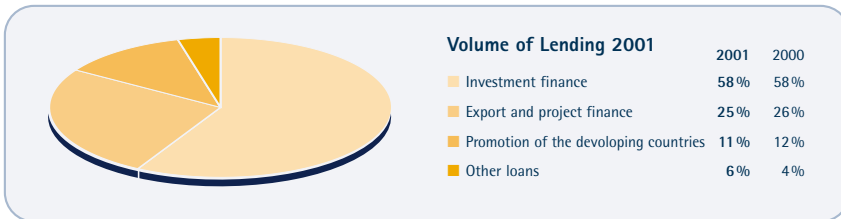
## THE VOLUME OF LENDING.

The Group volume of lending (loans and advances, including loans on a trust basis and guarantees) rose to EUR 210.0 billion (previous year: EUR 181.1 billion). Investment loans to the German economy accounted for the major part of this at 58%, followed by export and project finance at 25% and loans to promote the developing countries at 11%.

The continued brisk demand for investment loans to promote the German economy brought

an increase over the previous year of EUR 18.4 billion (18%); the volume of export and project finance rose by EUR 4.3 billion (9%). Loans to promote the developing countries remained nearly constant.

Guarantees rose by EUR 6.1 billion to EUR 12.9 billion. The new guarantees and guarantees for third party risks total EUR 6.7 billion and are mainly the result of loan securitization transactions.



Generally the on-lending banks bear the risks on domestic investment loans, while the greater part of the risks on export loans is limited by federal guarantees or risk-participation by commercial banks. Agreements with the Federal Government largely exclude the risks to KfW on loans to promote the developing countries. Any acute or latent risks to KfW on loan commitments given in the bank's name are covered by appropriate loan loss provisions, allowances made according to conservative principles and the fund for general bank risks in accordance with § 340g of the Commercial Code.

In 2001 as well KfW granted some borrowers easier repayment conditions by consolidating or rescheduling loans on the basis of bilateral or multilateral consolidation agreements. The amounts on claims under guarantees totalled EUR 1,149 million. During the year under review non-performing loans and advances totalling EUR 83 million were written off, of which claims on domestic borrowers accounted for EUR 81 million.

### KfW Group Volume of Lending 2001

EUR million and %

|   | Dec. 31, 2001  | Dec. 31, 2000  |               | Change    |
|---|----------------|----------------|---------------|-----------|
|   | EUR million    | EUR million    | EUR million   | %         |
| Promotion of the German economy           |                |                |               |           |
| ■ Investment finance                      | 122,366        | 103,940        | 18,426        | 18        |
| ■ Export and project finance              | 51,922         | 47,590         | 4,332         | 9         |
| Loans to promote the developing countries | 22,633         | 22,359         | 274           | 1         |
| Other items                               |                |                |               |           |
| ■ Other promotional loans                 | 188            | 361            | -173          | -48       |
| ■ Guarantees                              | 12,899         | 6,848          | 6,051         | 88        |
| <b>Total volume of lending</b>            | <b>210,008</b> | <b>181,098</b> | <b>28,910</b> | <b>16</b> |
| Of which loans on a trust basis           | 7,592          | 7,706          | -114          | -1        |

### FUNDING.

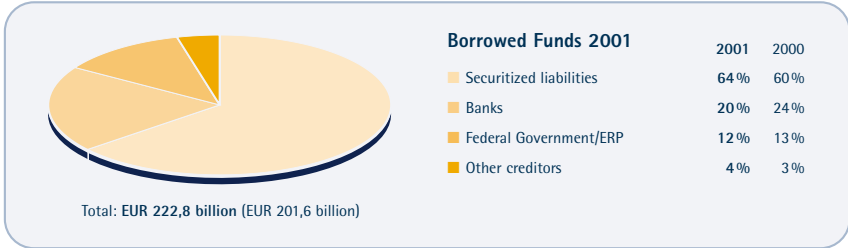
The Group's borrowed funds were raised mainly through the issue of bonds and notes (64% of borrowed funds), which rose by EUR 21.2 billion or 11%. Bonds and notes to EUR 67.4 billion were issued by KfW Finance. The share of borrowing

from banks and customers (without federal funds) dropped from 27% to 24%. The funds provided from the federal budget and the ERP Special Fund amounted to 12% of the borrowed funds (previous year 13%).

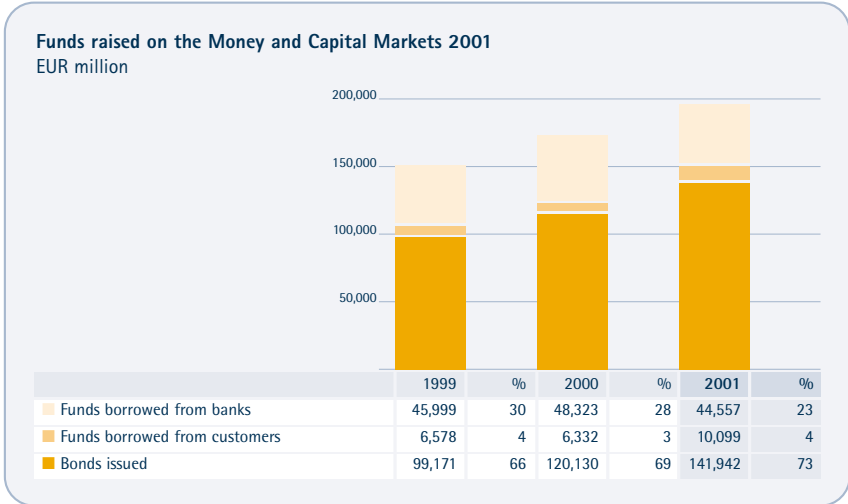
### Borrowed Funds 2001

EUR million and %

|   | Dec. 31, 2001  | Dec. 31, 2000  |               | Change    |
|---|----------------|----------------|---------------|-----------|
|   | EUR million    | EUR million    | EUR million   | %         |
| Federal Republic of Germany   |                |                |               |           |
| ■ ERP Special Fund  | 10,469         | 10,487         | -18           | 0         |
| ■ Federal budget  | 15,749         | 16,319         | -570          | -3        |
|   | 26,218         | 26,806         | -588          | -2        |
| Other lenders   | 10,099         | 6,332          | 3,767         | 59        |
| Funds borrowed from customers                                       | 36,317         | 33,138         | 3,179         | 10        |
| Funds borrowed from banks   | 44,557         | 48,323         | -3,766        | -8        |
| Bond issues   | 99,712         | 86,600         | 13,112        | 15        |
| Bearer securities<br>(incl. medium-term notes and commercial paper) | 39,094         | 30,630         | 8,464         | 28        |
| Accrued interest  | 3,136          | 2,900          | 236           | 8         |
| Bonds issued  | 141,942        | 120,130        | 21,812        | 18        |
| <b>Total</b>  | <b>222,816</b> | <b>201,591</b> | <b>21,225</b> | <b>11</b> |



The share of funds raised in the money and capital markets has risen slightly to 83% or EUR 196.6 billion from 81% or EUR 174.8 billion in the previous year.





### CHANGES IN OTHER MAJOR BALANCE SHEET ITEMS.

The portfolio of money market paper, bonds and debentures of other issuers has risen by EUR 1.1 billion to EUR 18.1 billion. The securities are used in our asset/liability management to hedge possible risks from changes in interest rates and for the reinvestment of part of the unscheduled repayments on loans. The securities are also used as collateral in funding operations with the European Central Bank. Most of the securities are assigned to the liquidity portfolios to ensure constant liquidity; the portfolios are maintained mainly in euros but they include US dollars and pounds sterling. In addition, KfW has set up earnings portfolios as income provision, which mainly contain asset backed securities. As well as these portfolios, which it manages itself, KfW holds other externally administered special funds as liquidity and income provision. They total EUR 1.7 billion and are shown in the item "Shares and other non-fixed rate securities". Most of the portfolio of money market paper, bonds and debentures (91 %) is eligible as collateral with the Deutsche Bundesbank.

For the purpose of supporting the price of its own issues KfW held EUR 4,027 million par value of its own bonds at the end of the year (EUR 3,004 million at the end of 2000). That was 3 % of the bonds issued by the bank.

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

Provisions have increased by EUR 39 million over the previous year. Of the allocations (EUR 137 million) EUR 43 million is provisions for staff pensions and EUR 84 million are mainly unsettled bank operating and payroll expenses. The allocations to provisions for tax liabilities amounted to EUR 10 million. EUR 69 million was used, while EUR 30 million was returned to income.

### EQUITY CAPITAL.

The Group's capital and reserves (subscribed capital, reserves and fund for general bank risks in accordance with § 340g of the Commercial Code) amount to EUR 7.4 billion. The increase was EUR 739 million or 12%. It resulted from the allocation of EUR 34 million to the reserves from the ERP Special Fund, the allocation to the special reserves of KfW's net income for the year of EUR 186 million and the increase of EUR 19

million in the other reserves from profits through the inclusion of the results of the subsidiaries and the capital consolidation. EUR 500 million was added to the fund for general bank risks in accordance with § 340g of the Commercial Code. KfW's capital and reserves are EUR 6.9 billion. The requirements on equity capital and reserves for banks operating internationally are still well fulfilled by KfW and the Group.

## Equity Capital

EUR million

|  | Dec. 31, 2000  | Additions 2001 | Dec. 31, 2001  |
|--|----------------|----------------|----------------|
| KfW's subscribed capital   | 511.3          |                | 511.3          |
| Outstanding contributions of KfW, not requested                        | -434.6         |                | -434.6         |
| Capital reserves   | 1,738.5        |                | 1,738.5        |
| Reserves from the ERP Special Fund                                     | 490.5          | 34.2           | 524.7          |
| Retained earnings  |                |                |                |
| a) Statutory reserve under § 10 (2) KfW Law                            | 63.9           |                | 63.9           |
| b) Statutory reserve under § 10 (3) KfW Law                            | 3,088.1        | 185.6          | 3,273.7        |
| c) Statutory reserve under § 17 (4) DM Balance Sheet Law <sup>1)</sup> | 47.6           |                | 47.6           |
| d) Other retained earnings   | 449.1          | 18.7           | 467.8          |
| Fund for general bank risks under § 340g Commercial Code               | 700.0          | 500.0          | 1,200.0        |
| <b>Total</b>   | <b>6,654.4</b> | <b>738.5</b>   | <b>7,392.9</b> |

<sup>1)</sup> To be adjusted by the special loss account shown on the Assets side in accordance with § 17 (4) of the D-Mark Balance Sheet Law (EUR 33.5 Mio million)

## EARNINGS POSITION.

### Earnings Position 2001

EUR million and %

|   | 2001        | 2000        | Change      |            |
|---|-------------|-------------|-------------|------------|
|   | EUR million | EUR million | EUR million | %          |
| interest income <sup>1)</sup>   | 11,259      | 10,698      | 561         | 5          |
| interest expenses   | 10,050      | 9,609       | 441         | 5          |
| interest received, net  | 1,209       | 1,089       | 120         | 11         |
| Commissions received, net   | 185         | 167         | 18          | 11         |
| Net earnings on financial transactions <sup>2)</sup>                        | -6          | 4           | -10         | -242       |
| General administrative expenses   | 382         | 333         | 49          | 15         |
| Other operating income and expenses   | 22          | 27          | -5          | -19        |
| Income from current operations before risk provisions and valuations        | 1,028       | 954         | 74          | 8          |
| Risk provisions/valuations, net <sup>3)</sup>                               | -783        | -634        | -149        | 23         |
| Income from current operations (= income on normal business transactions)   | 245         | 320         | -75         | -24        |
| Extraordinary result  | 0           | -51         | 51          | -100       |
| Total income from operations  | 245         | 269         | -24         | -9         |
| Contractual allocation of interest to the reserve from the ERP Special Fund | 34          | 37          | -3          | -8         |
| Taxes on income and profits   | 4           | -13         | 17          | -131       |
| <b>Net income for the year</b>  | <b>207</b>  | <b>245</b>  | <b>-38</b>  | <b>-15</b> |

<sup>1)</sup> Balance of interest income on lending and money market business, fixed-rate securities and debt register claims, with current income from shares and other non-fixed rate securities and investments.

<sup>2)</sup> Balance of gains and losses on currency conversions.

<sup>3)</sup> Including write-downs on the special loss account and allocation to the fund for general bank risks in accordance with § 340g Commercial Code.

## The Situation of KfW and the KfW Group.

The Group's income from current operations before risk provisions and valuations rose by EUR 74 million (8%) from the previous year to EUR 1,028 million (KfW: increase of EUR 81 million or 9% to EUR 967 million).

The main growth here was in net interest received by KfW, which rose by EUR 122 million (12%). The Group's gross interest margin (net interest in relation to the average balance sheet total) remained almost unchanged from the previous year at 0.51% (KfW: rise from 0.47% to 0.48%). This development was helped by the trend in interest rates. The net interest received includes DEG's interest income of EUR 98 million.

Net commissions received rose by EUR 18 million (11%) to EUR 185 million (KfW: increase of EUR 7 million or 5% to EUR 150 million), mainly on account of higher handling charges in the lending business and higher remuneration for

handling business for KfW-FuB with BvS, which increased during the year.

Administrative expenses rose by EUR 49 million (15%) to EUR 382 million (KfW: rise of EUR 33 million or 12% to EUR 303 million). This includes special effects from the assumption of more tasks and personnel by KfW-FuB from the Federal Agency for Special Tasks resulting from Unification. In addition, the growth in the number of staff and adjustments in wages and salaries for staff on collectively agreed rates and performance-related rates, as well as higher provisions for pensions, led to a rise in expenditure on personnel of EUR 23 million (11%) to EUR 230 million. The increase in general administrative expenses of EUR 26 million (20.5%) to EUR 152 million is i.a. due to higher EDP costs, more public relations work and higher depreciation on buildings, EDP equipment and other fixed assets.

### Administrative Expenses 2001

EUR million and %

|   | 2001         | 2000         | Change      |             |
|---|--------------|--------------|-------------|-------------|
|   | EUR million  | EUR million  | EUR million | %           |
| Wages and salaries                      | 169.2        | 146.7        | 22.5        | 15.3        |
| Social security contributions           | 25.1         | 23.2         | 1.9         | 8.3         |
| Expenses for pensions and support       | 35.5         | 37.0         | -1.5        | -4.1        |
| Expenditure on personnel                | 229.8        | 206.9        | 22.9        | 11.1        |
| Other administrative expenses           | 123.4        | 102.9        | 20.5        | 20.0        |
| Depreciation on buildings and equipment | 29.0         | 23.6         | 5.4         | 22.9        |
| Expenditure on material and equipment   | 152.4        | 126.5        | 25.9        | 20.5        |
| <b>Administrative expenses</b>          | <b>382.2</b> | <b>333.4</b> | <b>48.8</b> | <b>14.6</b> |

The Group's income from current operations was EUR 245 million (previous year EUR 320 million) after changes in valuations and allocations to risk provisions totalling EUR 783 million, mainly value adjustments to very conservative standards

to cover country and address risks in the lending business in view of the higher potential risk, and the allocation to the fund for general bank risks in accordance with § 340g of the Commercial Code.

The Group's net income for the year is EUR 207 million compared with EUR 245 million in the previous year. KfW's net income for the year is EUR 186 million.

Risk provisions and valuations as a whole rose from the previous year by EUR 149 million and are shown at EUR 783 million. Risk provisions are calculated by KfW according to a risk monitoring system which covers all the risks recognizable on balance sheet date – mainly address risks. Conservative standards are always applied. Risk provision was increasingly made through addition

to the fund for general bank risks, to which a further EUR 500 million was allocated. This is part of KfW's preparations for the transition to group accounting in compliance with the international accounting standards (IAS), scheduled for 2005 at the latest. Under the IAS forward provision for the special risks of a promotional bank can no longer be shown as risk provision. Special consideration will be given to the higher risks assumed by KfW on domestic SME and participation finance and the risks on derivatives transactions.

## RISK STRUCTURE AND RISK CONTROL.

### RISK CONTROL AND MANAGEMENT AS A KEY COMPETENCE.

The responsible management of the risks assumed by the promotional banks in the KfW Group is one of the essential conditions for its success. Risk management throughout the Group is therefore a basis for long-term positive development.

The Group only enters into risks that appear to be acceptable in regard to the current and future earnings position and the probable course of the risks. Both expected and unexpected losses are taken into account and risks entered into are assessed by conservative standards.

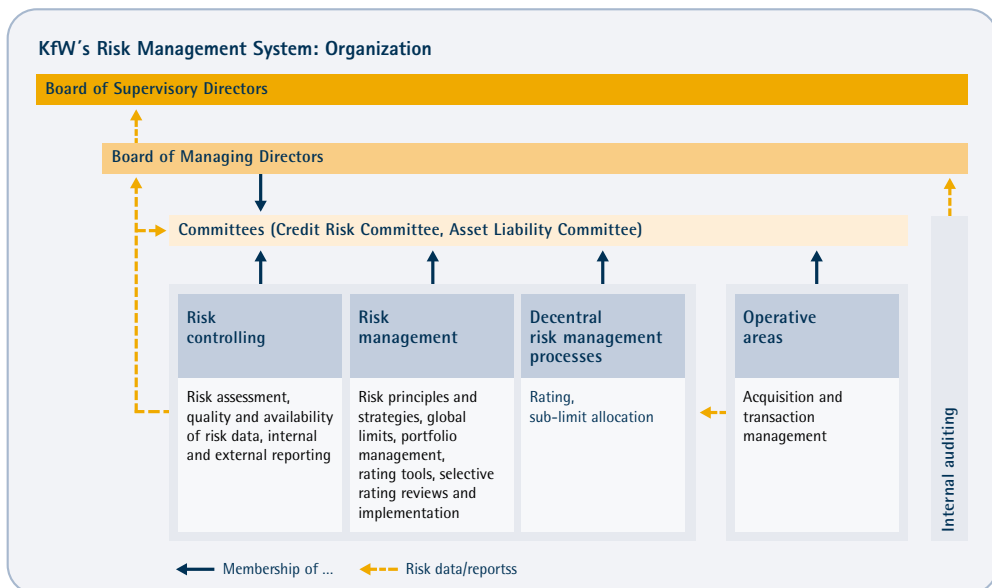
The risk management systems in the Group identify, assess and control the risks on lending, liquidity, changes in interest rates and operations. The Group is constantly developing and expanding the range of instruments designed to meet its requirements to limit, control and supervise risks. In view of the larger number of consolidated enterprises the different procedures of risk control are continuously being matched in order to make the methods of assessment and control uniform.

### THE ORGANIZATION OF RISK MANAGEMENT AND CONTROLLING.

The Risk Management and Risk Controlling departments are organized separately in KfW, and they are functionally independent of the departments that enter into the risks. After the enlargement of the Group in 2001 risk strategies and principles are being successively made uniform throughout the Group. The overall responsibility for risks in the Group is borne by the KfW Board of Managing Directors and reported in a trans-

parent mode to the supervisory organs – the Board of Supervisory Directors and the legal supervisors.

KfW's risk control involves a number of committees (e.g. the Credit Risk Committee and the Asset Liability Committee); beside members of the Board of Managing Directors and the Risk Controlling and Risk Management departments, they also include the operative departments.



In DEG, beside the management of individual risks, the risks of default and the country risks are analysed and controlled at the portfolio level. The lending and participations commitments are analysed at regular intervals according to various criteria (country, sector) and the risks assessed.

The requirements which the risk monitoring system has to meet are influenced by legal regulations which are followed on a voluntary basis within the Group. Chief among them is the Banking Law, which obliges banks to use appropriate instruments of risk steering, supervision and control. The requirements of the supervisory authorities on the ratio of equity to risk business are used as limiting factors both for the volume of business and the level of risk the Group can take.

To improve both risk assessment and the active steering of risk as well as the infrastructure KfW has redirected its risk control system.

In particular, for credit risk control the rating tools for corporate customers and banks have been developed further and the process of re-designing the rating tools for participation finance has begun. This will improve the internal transparency on earnings and costs as well as risks, and reflect the structure and special features of KfW's business. At the same time the requirements of Basel II and the planned minimum requirements for the operation of lending business (MaK) will be met.

For market risk control a standard software has been purchased. In 2002, when all the rele-

vant internal and external data have been incorporated, KfW will be able to produce static and dynamic simulations of interest rate risks, and so be able to put its funding decisions, especially, on a more secure basis.

Altogether, KfW can confirm that it is well within timetable, but we are aware that considerable efforts will still be needed to implement Basel II by 2006. KfW's objective is to optimize overall supervision in the bank and not only fulfil the supervisory regulations.

#### RISK OF ADDRESS DEFAULT.

As a promotional bank KfW deliberately enters into risks in a form that derives from its task of promotion. On the one hand this means limitation, in trading operations, for example, but on the other it involves taking on greater risks, as in participation finance. The control, supervision and monitoring of these risks, which is to be further extended, are performed through risk controlling and management. The instruments and methods used for this must take due account of the promotional aspects in view of the special tasks of the KfW Group.

The risk of address default is limited as before by guarantees from public authorities and banks and the use of credit derivatives. However, KfW is now taking on greater risks on loans channelled through handling banks and in the participation business. The risks of default on securities investments and derivatives are also limited by a restrictive choice of counterparties, all of whom are of first-class standing, and through agreements on collateral. The qualitative control of default risks is performed through internal rating procedures in which the country risks and individual corporate or project-related risks are assessed separately.

To control the risk of default the responsible bodies within KfW are presented with reports on the development of country and project risks and a risk balance sheet at regular intervals.

Business partners domiciled abroad may involve conversion and transfer risks regardless of their standing, and these are aggregated and analysed in the Group by country or risk groups using country risk reports. KfW's project risk report covers all borrowers operating under private law, whose liabilities are not guaranteed by a public authority and who can consequently become insolvent. To control the risk of default, the aggregated, quantifiable risks are shown against risk provision in KfW in a point-in-time risk balance sheet. This is the basis for the decision on allocations to risk provision out of the income from operations. In addition, the assessed future credit risks on old business and the forecast new business are compared in a dynamic risk balance sheet with the risk provision already made and planned for the future for old and new business.

The Credit Risk Committee builds up on this and assesses the existing scope for KfW's business policy. It works out any risk policy measures needed and decides on risk control measures in the portfolio context. In addition, the Committee also provides a forum for an exchange of information between departments on business policy developments related to credit risks.

In the 2001 business year loans and advances at the Group's own risk totalled EUR 46.9 billion, of which EUR 3.7 billion bore acute risk of default. The potential defaults have been conser-

## The Situation of KfW and the KfW Group.

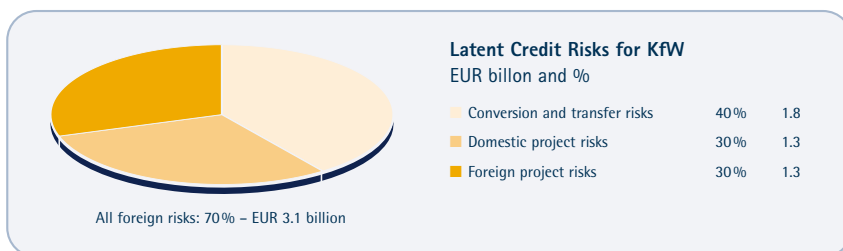
vatively assessed and specific provisions of EUR 1.3 billion have been made.

In the loans outstanding on which the Group bears a political risk, and which total EUR 33.7 billion, the country risks are assessed at EUR 1.8 billion. Adjustments on participations by DEG amount to EUR 0.1 billion (40% of the gross investment). The country risk assessed is covered by special risk provision.

Part of KfW's risk provision is disclosed in the balance sheet in the fund for general bank risks. This practice was continued in 2001 and

the fund for general bank risks was increased with an allocation of a further EUR 500 million, bringing it to EUR 1.2 billion. In view of the foreseeable accounting to IAS requirements KfW is increasingly changing to disclosure of its risk provisions.

The latent credit risks as assessed are fully covered by the existing risk provision that has been made to conservative standards.



Last year KfW, in conjunction with a number of banks, further developed products to securitize promotional loan portfolios. The aim of these activities is to take part of the credit risks from the handling banks and place them on the capital

market. This relieves the handling banks of credit risks and the obligations on equity capital cover; the risks to KfW on these transactions have been excluded as far as possible.

## LIQUIDITY RISK.

KfW counters the liquidity risk with a computerized liquidity control system. It supervises its liquidity following the instructions in the KfW Law and regularly calculates the key liquidity figures in accordance with the rules of the new Supervision Principle II of the Banking Law. For more detailed liquidity control an information system is available that shows all KfW's liquidity

flows on the current date. The liquidity planning is on a daily, monthly and yearly basis. KfW has an adequate stock of liquid securities that as Category I securities are eligible as collateral with the European Central Bank, both for residual funding and for regular open market transactions. KfW also holds liquid US dollar securities as a liquid reserve.

## MARKET RISKS.

KfW and its subsidiaries are not commercial banks under the Commercial Code; consequently their market risks are limited to the portfolio of securities.

Loans in foreign currencies are refinanced in the same currency or secured through appropriate currency hedge instruments. Adjustments on parts of claims in foreign currencies that are at risk of default are not included here on principle. Exchange rate risks only occur on foreign currency margins achieved in the lending business. Margins earned in foreign currencies are generally sold quickly.

The risk of changes in interest rates is a form of the market price risk, and it is determined both by the special nature of the domestic promotional loan business, with the possibilities of loan repayments ahead of schedule, and by the price risks on securities investments. To control the risks of changes in interest rates on loan repayments ahead of schedule KfW enters into open interest positions to a limited extent by obtaining a certain amount of short-term funds ahead of need and reinvesting quickly in ersatz assets in the form of securities in order to neutralize repayments ahead of schedule.

Most of KfW's securities are held in a liquidity portfolio; they are shown as liquid assets and used as liquidity provision for the bank. However, the risks of price changes on these securities are largely avoided by the use of asset swaps. Investments in securities for income are undertaken as part of a strategic allocation fixed by the Board of Managing Directors through the use of special funds with equity investment companies and through investments in asset-backed investment grade securities.

The assessment and control of risks of changes in interest rates are performed in KfW by an Asset Liability Committee with the use of appropriate instruments. Interest trend balance sheets are drawn up monthly for the euro and the US dollar and for the transactions under programmes on behalf of the Federal Government, showing the open positions relevant to changes in interest rates. These positions are quantified using a forward scenario-based simulation.

The Board of Managing Directors has issued general conditions in accordance with market standards for the transaction, handling and accounting of commercial business, in accordance with the MaH.



### OPERATIONAL AND OTHER RISKS.

The operational risks in the Group are limited by an appropriate internal control system. Considerable funds are spent on further developing the computerized instruments and optimizing the business processes. For risks that can occur owing to unforeseen events (breakdown of the computer systems) the Group has suitable emergency concepts and sufficient insurance cover (for fire and water damage etc.).

In 2001 the comprehensive "Operational Risks" project was continued. The process of risk identification was completed and emergency concepts were further elaborated to deal with any breakdown in the technical equipment needed for the bank's operations.

The Group counters the legal risk by involving its own legal department in good time and

by close cooperation with external legal advisers in Germany and abroad. Contracts may only be drawn up on the basis of clear and correctly documented agreements (e.g. ISDA Standard Agreements).

The bank's internal auditing department regularly supervises the procedures, systems and work organization. Internal audits are made mainly as part of the assessment of the suitability of the risk limitation and the supervision in accordance with the minimum requirements for the operation of commercial business. The staffing and organization of the internal auditing department have been adapted to the growing requirements. General provision has been made for risks to the operational organization.

### OUTLOOK.

Support for German small and medium-sized firms continues to be a main area of activity.

KfW will actively support the developments necessary for a favourable financing environment for the SME sector. This includes securitization of loans, in which KfW takes over risks of default on SME loans and places them on the capital market. This gives the banks scope for new lending to small and medium-sized firms. In future these conditions are to be further improved to enable smaller and medium-sized banks to securitize credit risks better. Global loans will be a central instrument. For 2002 a further increase in the present volume of securitization is expected.

KfW is planning with IKB to build up a strategic partnership for the SME sector. In future KfW will involve the SME experts in IKB and their know-how more in the development of new products to analyse special financing requirements

in individual sectors and develop specific financial products.

Altogether, KfW is expecting a similarly high level of commitments in the investment finance programmes in Germany this year as last year. Again most of the loans will be for small and medium-sized firms, housing construction and the environment programmes.

The activities in export and project finance will, as before, be concentrated on financing German and European exports and direct investment in other European countries and abroad. In view of the situation in the world economy a rather lower volume of new business as a whole is expected compared with the year under review.

In promotion for the developing countries KfW is expecting a volume of commitments totalling EUR 1.5 billion for 2002. The integration of DEG in the banking group is of decisive importance for the KfW Group in combining the

forces and increasing the efficiency of German development cooperation. The merger will open up new growth prospects for the future, especially for DEG. Particularly in view of the interaction of poverty and terrorism alleviating poverty will be in the foreground of development cooperation in 2002 as well.

On the international capital markets KfW is expecting to raise around EUR 40 billion in 2002. The successful € Benchmark Programme will be continued in 2002 with issues of new bonds for at least EUR 15 billion. In addition, KfW will make its activities in US dollars in the capital market more transparent and set up a new US dollar programme.

The acceptance of more risks will tend to increase the risk of default. KfW is well prepared for this development with its existing range of control instruments, that is constantly being upgraded, and its conservative risk policy.

In view of the optimization of risk control and the expected changes in the supervisory regulations KfW has set up a project to reorient its credit risk management. The aim of the project is a more transparent and consistent account of credit risks through all levels and areas of the bank, taking into account the special features of KfW's business. The project should create a better basis for active loan portfolio management. A better information base will be worked out for comprehensive, coordinated utilization of the bank's scope for risk, and the assessment of the results of individual areas of the bank's activity in regard to risk will be optimized.

The operational risks will be constantly minimized through further investment in the development of the computer system and process opti-

mization. The process of risk identification is now completed. To quantify these risks the comprehensive "Operational Risks" project will be developed further in 2002 as well.

KfW has initiated a project to adapt the steering of the market price risks for the bank as a whole to modern standards. The introduction of a generally recognized standard software will, in particular, enable up to date market valuation of the entire bank and create a modern range of instruments to steer interest and currency risks.

The KfW Group is expecting a satisfactory result for the year in 2002 as well, which will enable appropriate allocations to be made to both risk provisions and the special reserves.

On March 1, 2002 KfW, with the Federal Ministry of Finance, signed an agreement with the European Commission on the treatment of government institutional guarantees for the German promotional banks – that is, the *Anstaltslast*, state guarantees and funding guarantees – under the legislation on official assistance.

This will secure the continuance of these government guarantees on a permanent basis and enable the public promotional work to continue.

The use of advantages relevant to assistance by promotional institutions under the *Anstaltslast* and the other state guarantees is permissible for the execution of promotional tasks under government mandates. Activities that do not come under the areas permitted by the legislation on assistance must be outsourced by the promotional institutions to legally independent subsidiaries that do not receive official support.

The legal framework is to be precisely laid down by March 31, 2004 and the outsourcing must be complete by December 31, 2007.

# FINANCIAL STATEMENTS.

Balance Sheet of Kreditanstalt für Wiederaufbau as per December 31, 2001.

## Assets

|   | 2001         |              |              |                    | 2000        |             |                |
|---|--------------|--------------|--------------|--------------------|-------------|-------------|----------------|
|   | EUR thousand | EUR thousand | EUR thousand | EUR thousand       | EUR million | EUR million | EUR million    |
| <b>1. Cash reserves</b>   |              |              |              |                    |             |             |                |
| a) Cash in hand   |              |              | 125          |                    |             | 0           |                |
| b) Balances with central banks  |              |              | 25,904       |                    |             | 30          |                |
| of which: with the Deutsche Bundesbank  | 25,904       |              |              |                    | 30          |             |                |
| c) Balances with postal giro centres  |              |              | 0            | 26,029             |             | 0           | 30             |
| <b>2. Loans and advances to banks</b>   |              |              |              |                    |             |             |                |
| a) At call  |              |              | 21,391       |                    |             | 290         |                |
| b) Others   |              |              | 106,838,830  | 106,860,221        |             | 94,165      | 94,455         |
| <b>3. Loans and advances to customers</b>   |              |              |              | 90,082,159         |             |             | 82,679         |
| of which: secured with mortgages  | 0            |              |              |                    | 0           |             |                |
| of which: municipal loans   | 19,160,556   |              |              |                    | 16,820      |             |                |
| <b>4. Bonds and other fixed-rate securities</b>   |              |              |              |                    |             |             |                |
| a) Money market paper   |              |              |              |                    |             |             |                |
| aa) Of public issuers   |              | 0            |              |                    |             | 0           |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 0            |              |              |                    | 0           |             |                |
| ab) Of other issuers  |              | 422,417      | 422,417      |                    |             | 2,269       |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 0            |              |              |                    | 1,611       |             |                |
| b) Bonds and debentures   |              |              |              |                    |             |             |                |
| ba) Of public issuers   |              | 2,433,491    |              |                    |             | 2,039       |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 2,309,853    |              |              |                    | 2,014       |             |                |
| bb) Of other issuers  |              | 17,235,213   | 19,668,704   |                    |             | 14,508      |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 14,062,470   |              |              |                    | 11,779      |             |                |
| c) KfW's own bond issues  |              |              | 2,303,948    | 22,395,069         |             | 1,200       | 20,016         |
| Par value   | 2,102,010    |              |              |                    | 1,178       |             |                |
| <b>5. Shares and other non-fixed rate securities</b>  |              |              |              | 10,934,368         |             |             | 10,546         |
| <b>6. Investments</b>   |              |              |              | 568,434            |             |             | 18             |
| of which: in banks  | 564,764      |              |              |                    | 17          |             |                |
| of which: in financial services institutions  | 0            |              |              |                    | 0           |             |                |
| <b>7. Shares in affiliated enterprises</b>  |              |              |              | 326,470            |             |             | 12             |
| of which: in banks  | 314,605      |              |              |                    | 0           |             |                |
| of which: in financial services institutions  | 0            |              |              |                    | 0           |             |                |
| <b>8. Assets on a trust basis</b>   |              |              |              | 7,407,992          |             |             | 7,515          |
| of which: loans on a trust basis  | 7,404,965    |              |              |                    | 7,515       |             |                |
| <b>9. Compensation claims on public authorities including bonds from their conversion</b>               |              |              |              | 257,178            |             |             | 324            |
| <b>10. Intangible assets</b>  |              |              |              | 8,037              |             |             | 4              |
| <b>11. Fixed assets</b>   |              |              |              | 422,686            |             |             | 355            |
| <b>12. Unpaid capital</b>   |              |              |              | 434,598            |             |             | 435            |
| of which: requested   | 0            |              |              |                    | 0           |             |                |
| <b>13. Other assets</b>   |              |              |              | 432,761            |             |             | 2,106          |
| <b>14. Prepaid expenses and deferred charges</b>  |              |              |              | 4,693,905          |             |             | 4,546          |
| <b>15. Special loss account consisting of provisions under § 17 (4) of the D-Mark Balance Sheet Law</b> |              |              |              | 33,509             |             |             | 33             |
| <b>Total assets</b>   |              |              |              | <b>244,883,416</b> |             |             | <b>223,074</b> |

## Liabilities and Shareholders' Equity

|   |              |              |              | 2001               |             |             | 2000           |
|---|--------------|--------------|--------------|--------------------|-------------|-------------|----------------|
|   | EUR thousand | EUR thousand | EUR thousand | EUR thousand       | EUR million | EUR million | EUR million    |
| <b>1. Funds borrowed from banks</b>                                   |              |              |              |                    |             |             |                |
| a) At call  |              |              | 867,667      |                    |             | 559         |                |
| b) With agreed terms or periods of notice                             |              |              | 43,485,354   | 44,353,021         | 47,496      | 48,055      |                |
| <b>2. Funds borrowed from customers</b>                               |              |              |              |                    |             |             |                |
| a) Savings deposits   |              |              | 0            |                    |             | 0           |                |
| b) Other funds  |              |              |              |                    |             |             |                |
| ba) At call   |              | 266,827      |              |                    |             | 586         |                |
| bb) with agreed terms or periods of notice                            |              | 103,291,736  | 103,558,563  | 103,558,563        | 100,274     | 100,860     |                |
| <b>3. Securitized liabilities</b>                                     |              |              |              |                    |             |             |                |
| a) Bond issues  |              |              | 74,529,138   |                    |             | 51,897      |                |
| b) Other securitized liabilities                                      |              |              | 0            | 74,529,138         |             | 0           | 51,897         |
| <b>4. Liabilities on a trust basis</b>                                |              |              |              | 7,407,992          |             |             | 7,515          |
| of which: loans on a trust basis                                      | 7,404,965    |              |              |                    | 7,515       |             |                |
| <b>5. Other liabilities</b>   |              |              |              | 156,396            |             |             | 762            |
| <b>6. Deferred income</b>   |              |              |              | 6,845,553          |             |             | 6,702          |
| <b>7. Accrued estimated liabilities</b>                               |              |              |              |                    |             |             |                |
| a) Accrued pension liabilities and similar obligations                |              |              | 424,752      |                    |             | 401         |                |
| b) Other  |              |              | 202,015      | 626,767            |             | 192         | 593            |
| <b>8. Obligatory charges under the D-Mark Balance Sheet Law</b>       |              |              |              | 46,365             |             |             | 50             |
| <b>9. Fund for general bank risks</b>                                 |              |              |              | 1,200,000          |             |             | 700            |
| <b>10. Equity capital</b>   |              |              |              |                    |             |             |                |
| a) Subscribed   |              |              | 511,292      |                    |             | 511         |                |
| b) Capital reserves   |              |              | 1,738,490    |                    |             | 1,738       |                |
| Allocation  | 0            |              |              |                    | 0           |             |                |
| c) Reserve from the ERP Special Fund                                  |              |              | 524,672      |                    |             | 491         |                |
| Contractual appropriation of interest                                 | 34,233       |              |              |                    | 37          |             |                |
| d) Retained earnings  |              |              |              |                    |             |             |                |
| da) Statutory reserve under § 10 (2) of the KfW Law                   |              | 63,911       |              |                    |             | 64          |                |
| db) Special reserve under § 10 (3) of the KfW Law                     |              | 3,273,649    |              |                    |             | 3,088       |                |
| dc) Special reserve under § 17 Abs. 4 of the D-Mark Balance Sheet Law |              | 47,607       | 3,385,167    | 6,159,621          |             | 48          | 5,940          |
| <b>Total liabilities</b>  |              |              |              | <b>244,883,416</b> |             |             | <b>223,074</b> |
| <b>1. Contingent liabilities</b>                                      |              |              |              |                    |             |             |                |
| a) On bills discounted and charged                                    |              | 0            |              |                    | 0           |             |                |
| b) On guarantees  |              | 12,887,743   |              |                    | 6,836       |             |                |
| c) Liability under collateral provided for third party liabilities    |              | 0            | 12,887,743   |                    | 0           | 6,836       |                |
| <b>2. Other obligations</b>   |              |              |              |                    |             |             |                |
| a) Repurchase obligations on non-genuine repurchase transactions      |              | 0            |              |                    | 0           |             |                |
| b) Placing and underwriting obligations                               |              |              | 0            |                    | 0           |             |                |
| c) Irrevocable loan commitments                                       |              | 24,936,246   | 24,936,246   |                    | 27,030      | 27,030      |                |

Statement of Income of Kreditanstalt für Wiederaufbau for the Period from January 1 to December 31, 2001.

## Expenses

|  | 2001         |              |              |                   | 2000        |             |               |
|--|--------------|--------------|--------------|-------------------|-------------|-------------|---------------|
|  | EUR thousand | EUR thousand | EUR thousand | EUR thousand      | EUR million | EUR million | EUR million   |
| 1. Interest expenses   |              |              |              | 10,029,300        |             |             | 9,584         |
| 2. Contractual appropriation of interest to reserve from the ERP Special Fund  |              |              |              | 34,233            |             |             | 37            |
| 3. Commissions and similar charges payable   |              |              |              | 227,861           |             |             | 224           |
| 4. Net expenditure on financial transactions   |              |              |              | 4,565             |             |             | -             |
| 5. General administrative expenses   |              |              |              |                   |             |             |               |
| a) Expenditure on personnel  |              |              |              |                   |             |             |               |
| aa) Salaries and wages   |              | 136,202      |              |                   |             | 120         |               |
| ab) Social security contributions, expenditure on pensions and support   |              | 48,501       | 184,703      |                   |             | 52          |               |
| of which: for pensions   | 27,999       |              |              |                   | 33          |             |               |
| b) Other administrative expenses   |              |              | 91,095       | 275,798           |             | 76          | 248           |
| 6. Depreciation and value adjustments on intangible assets and fixed assets  |              |              |              | 27,324            |             |             | 22            |
| 7. Other operating expenses  |              |              |              | 8,852             |             |             | 1             |
| 8. Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses  |              |              |              | 748,969           |             |             | 588           |
| Of which: Allocation to fund for general bank risks  | 500,000      |              |              |                   | 500         |             |               |
| 9. Write-downs and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets |              |              |              | -                 |             |             | 6             |
| 10. Extraordinary expenses   |              |              |              | 0                 |             |             | 51            |
| 11. Write-downs on the special loss account under § 17 (4) of the D-Mark Balance Sheet Law                                   |              |              |              | 24                |             |             | 0             |
| 12. Net income   |              |              |              | 185,582           |             |             | 205           |
| <b>Total expenses</b>  |              |              |              | <b>11,542,508</b> |             |             | <b>10,966</b> |
| 1. Net income  |              |              |              | 185,582           |             |             | 205           |
| 2. Allocations to the Special Reserve under § 10 (3) of the KfW Law  |              |              |              | 185,582           |             |             | 205           |
| 3. Balance sheet profit  |              |              |              | 0                 |             |             | 0             |

## Income

|   | 2001         |              |              |              | 2000        |             |             |
|---|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
|   | EUR thousand | EUR thousand | EUR thousand | EUR thousand | EUR million | EUR million | EUR million |
| <b>1. Interest income from</b>  |              |              |              |              |             |             |             |
| a) Lending and money market transactions  |              |              | 10,245,447   |              |             | 9,751       |             |
| b) Fixed-interest securities and debt register claims   |              |              | 859,425      | 11,104,872   |             | 792         | 10,543      |
| <b>2. Current income from</b>   |              |              |              |              |             |             |             |
| a) Shares and other non-fixed rate securities   |              |              | 31,792       |              |             | 31          |             |
| b) Investments  |              |              | 901          |              |             | 1           |             |
| c) Shares in affiliated enterprises   |              |              | 4,135        | 36,828       |             | 0           | 32          |
| <b>3. Commissions and similar service charges earned</b>  |              |              |              | 377,387      |             |             | 366         |
| <b>4. Net earnings on financial transactions</b>  |              |              |              | -            |             |             | 7           |
| <b>5. Earnings on allocations to investments, shares in affiliated enterprises and securities treated as fixed assets</b> |              |              |              | 1,375        |             |             | -           |
| <b>6. Other operating income</b>  |              |              |              | 22,046       |             |             | 18          |

**Total income**

**11,542,508**

**10,966**

## Balance Sheet of the KfW Group as per 31 December, 2001.

### Assets

|   |              |              |              | 2001               |             |             | 2000           |
|---|--------------|--------------|--------------|--------------------|-------------|-------------|----------------|
|   | EUR thousand | EUR thousand | EUR thousand | EUR thousand       | EUR million | EUR million | EUR million    |
| <b>1. Cash reserves</b>   |              |              |              |                    |             |             |                |
| a) Cash in hand   |              |              | 134          |                    |             | 0           |                |
| b) Balances with central banks  |              |              | 25,904       |                    |             | 30          |                |
| of which: with the Deutsche Bundesbank  | 25,904       |              |              |                    | 30          |             |                |
| c) Balances with postal giro centres  |              |              | 0            | 26,038             |             | 0           | 30             |
| <b>2. Loans and advances to banks</b>   |              |              |              |                    |             |             |                |
| a) At call  |              |              | 29,121       |                    |             | 331         |                |
| b) Others   |              |              | 107,297,318  | 107,326,439        |             | 94,505      | 94,836         |
| <b>3. Loans and advances to customers</b>   |              |              |              | 90,766,588         |             |             | 83,508         |
| of which: secured with mortgages  | 0            |              |              |                    | 0           |             |                |
| of which: municipal loans   | 19,160,556   |              |              |                    | 16,820      |             |                |
| <b>4. Bonds and other fixed-rate securities</b>   |              |              |              |                    |             |             |                |
| a) Money market paper   |              |              |              |                    |             |             |                |
| aa) Of public issuers   |              | 0            |              |                    |             | 0           |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 0            |              |              |                    | 0           |             |                |
| ab) Of other issuers  |              | 422,417      | 422,417      |                    |             | 2,279       |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 0            |              |              |                    | 1,622       |             |                |
| b) Bonds and debentures   |              |              |              |                    |             |             |                |
| ba) Of public issuers   |              | 2,433,491    |              |                    |             | 2,039       |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 2,309,853    |              |              |                    | 2,014       |             |                |
| bb) Of other issuers  |              | 15,217,721   | 17,651,212   |                    |             | 12,652      |                |
| of which: eligible as collateral with the Deutsche Bundesbank   | 14,080,234   |              |              |                    | 11,812      |             |                |
| c) The Group's own bond issues  |              |              | 4,339,204    | 22,412,833         |             | 3,089       | 20,059         |
| Par value   | 4,027,397    |              |              |                    | 3,004       |             |                |
| <b>5. Shares and other non-fixed rate securities</b>  |              |              |              | 10,934,368         |             |             | 10,546         |
| <b>6. Investments</b>   |              |              |              | 197,431            |             |             | 166            |
| of which: in banks  | 59,835       |              |              |                    | 58          |             |                |
| of which: in financial services institutions  | 0            |              |              |                    | 0           |             |                |
| <b>7. Investments in associated enterprises</b>   |              |              |              | 556,156            |             |             | 0              |
| of which: in banks  | 556,156      |              |              |                    | 0           |             |                |
| of which: in financial services institutions  | 0            |              |              |                    | 0           |             |                |
| <b>8. Shares in affiliated enterprises</b>  |              |              |              | 11,854             |             |             | 12             |
| of which: in banks  | 0            |              |              |                    | 0           |             |                |
| of which: in financial services institutions  | 0            |              |              |                    | 0           |             |                |
| <b>9. Assets on a trust basis</b>   |              |              |              | 7,681,789          |             |             | 7,794          |
| of which: loans on a trust basis  | 7,592,011    |              |              |                    | 7,706       |             |                |
| <b>10. Compensation claims on public authorities including bonds from their conversion</b>              |              |              |              | 257,178            |             |             | 324            |
| <b>11. Intangible assets</b>  |              |              |              | 8,863              |             |             | 7              |
| <b>12. Fixed assets</b>   |              |              |              | 432,641            |             |             | 366            |
| <b>13. Unpaid capital</b>   |              |              |              | 434,598            |             |             | 435            |
| of which: requested   | 0            |              |              |                    | 0           |             |                |
| <b>14. Other assets</b>   |              |              |              | 437,446            |             |             | 2,109          |
| <b>15. Prepaid expenses and deferred charges</b>  |              |              |              | 4,693,905          |             |             | 4,546          |
| <b>16. Special loss account consisting of provisions under § 17 (4) of the D-Mark Balance Sheet Law</b> |              |              |              | 33,509             |             |             | 34             |
| <b>Total Assets</b>   |              |              |              | <b>246,211,636</b> |             |             | <b>224,772</b> |

## Liabilities and Shareholders' Equity

|  | 2001         |              |              |              | 2000        |             |             |
|--|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
|  | EUR thousand | EUR thousand | EUR thousand | EUR thousand | EUR million | EUR million | EUR million |
| <b>1. Funds borrowed from banks</b>                                |              |              |              |              |             |             |             |
| a) At call   |              |              | 807,560      |              |             | 558         |             |
| b) With agreed terms or periods of notice                          |              |              | 43,749,312   | 44,556,872   | 47,765      |             | 48,323      |
| <b>2. Funds borrowed from customers</b>                            |              |              |              |              |             |             |             |
| a) Savings deposits  |              |              | 0            |              |             | 0           |             |
| b) Other funds   |              |              |              |              |             |             |             |
| ba) At call  |              | 278,957      |              |              |             | 595         |             |
| bb) With agreed terms or periods of notice                         |              | 36,038,242   | 36,317,199   | 36,317,199   | 32,543      |             | 33,138      |
| <b>3. Securitized liabilities</b>                                  |              |              |              |              |             |             |             |
| a) Bond issues   |              |              | 141,942,090  |              |             | 120,130     |             |
| b) Other securitized liabilities                                   |              |              | 0            | 141,942,090  |             | 0           | 120,130     |
| <b>4. Liabilities on a trust basis</b>                             |              |              |              | 7,681,789    |             |             | 7,794       |
| of which: loans on a trust basis                                   | 7,592,011    |              |              |              | 7,706       |             |             |
| <b>5. Other liabilities</b>  |              |              |              | 268,920      |             |             | 860         |
| <b>6. Deferred income</b>  |              |              |              | 6,845,780    |             |             | 6,702       |
| <b>7. Accrued estimated liabilities</b>                            |              |              |              |              |             |             |             |
| a) Accrued pension liabilities and similar obligations             |              |              | 464,163      |              |             | 436         |             |
| b) tax liabilities   |              |              | 10,203       |              |             | 9           |             |
| c) Other   |              |              | 250,796      | 725,162      |             | 241         | 686         |
| <b>8. Obligatory charges under the D-Mark Balance Sheet Law</b>    |              |              |              | 46,365       |             |             | 50          |
| <b>9. Fund for general bank risks</b>                              |              |              |              | 1,200,000    |             |             | 700         |
| <b>10. Equity capital</b>  |              |              |              |              |             |             |             |
| a) Subscribed  |              |              | 511,292      |              |             | 511         |             |
| b) Capital reserves  |              |              | 1,738,490    |              |             | 1,738       |             |
| Allocation   | 0            |              |              |              | 0           |             |             |
| c) Reserve from the ERP Special Fund                               |              |              | 524,672      |              |             | 490         |             |
| Contractual appropriation of interest                              | 34,233       |              |              |              | 37          |             |             |
| d) Retained earnings   |              |              |              |              |             |             |             |
| da) Statutory reserve under § 10 (2) of the KfW Law                |              | 63,911       |              |              |             | 64          |             |
| db) Special reserve under § 10 (3) of the KfW Law                  |              | 3,273,649    |              |              |             | 3,088       |             |
| dc) Special reserve under § 17 (4) of the D-Mark Balance Sheet Law |              | 47,607       |              |              |             | 48          |             |
| dd) Other retained earnings  |              | 467,838      | 3,853,005    | 6,627,459    |             | 449         | 6,389       |
| <b>Total liabilities</b>   |              |              |              | 246,211,636  |             |             | 224,772     |
| <b>1. Contingent liabilities</b>                                   |              |              |              |              |             |             |             |
| a) On bills discounted and charged                                 |              |              | 0            |              |             | 0           |             |
| b) On guarantees   |              | 12,898,669   |              |              |             | 6,848       |             |
| c) Liability under collateral provided for third party liabilities |              | 0            | 12,898,669   |              |             | 0           | 6,848       |
| <b>2. Other obligations</b>  |              |              |              |              |             |             |             |
| a) Repurchase obligations on non-genuine repurchase transactions   |              |              | 0            |              |             | 0           |             |
| b) Placing and underwriting obligations                            |              |              | 0            |              |             | 0           |             |
| c) Irrevocable loan commitments                                    |              | 25,263,792   | 25,263,792   |              |             | 27,217      | 27,217      |



Statement of Income of the KfW Group for the period from January 1 to December 31, 2001.

## Expenses

|   |              |              |              | 2001              |             |             | 2000          |
|---|--------------|--------------|--------------|-------------------|-------------|-------------|---------------|
|   | EUR thousand | EUR thousand | EUR thousand | EUR thousand      | EUR million | EUR million | EUR million   |
| 1. Interest expenses  |              |              |              | 10,050,139        |             |             | 9,609         |
| 2. Contractual appropriation of interest to reserve from the ERP Special Fund   |              |              |              | 34,233            |             |             | 37            |
| 3. Commissions and similar charges payable  |              |              |              | 227,928           |             |             | 223           |
| 4. Net expenditure on financial transactions  |              |              |              | 6,270             |             |             | -             |
| 5. General administrative expenses  |              |              |              |                   |             |             |               |
| a) Expenditure on personnel   |              |              |              |                   |             |             |               |
| aa) Salaries and wages  |              | 169,215      |              |                   |             | 147         |               |
| ab) Social security contributions and expenditure on pensions and support   |              | 60,545       | 229,760      |                   |             | 60          |               |
| of which: for pensions  | 35,460       |              |              |                   | 37          |             |               |
| b) Other administrative expenses  |              |              | 123,449      | 353,209           |             | 103         | 310           |
| 6. Depreciation and value adjustments on intangible assets and fixed assets   |              |              |              | 28,965            |             |             | 24            |
| 7. Other operating expenses   |              |              |              | 9,403             |             |             | 1             |
| 8. Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses |              |              |              | 787,196           |             |             | 635           |
| of which: allocation to fund for general bank risks   | 500,000      |              |              |                   | 500         |             |               |
| 9. Extraordinary expenses   |              |              |              | 0                 |             |             | 51            |
| 10. Write-downs on the special loss account under § 17 (4) of the D-Mark Balance Sheet Law                                  |              |              |              | 24                |             |             | 0             |
| 11. Taxes on earnings and income  |              |              |              | 3,536             |             |             | (13)          |
| 12. Net income  |              |              |              | 206,960           |             |             | 245           |
| <b>Total expenses</b>   |              |              |              | <b>11,707,863</b> |             |             | <b>11,122</b> |

## Income

|   | 2001         |              |              |              | 2000        |             |             |
|---|--------------|--------------|--------------|--------------|-------------|-------------|-------------|
|   | EUR thousand | EUR thousand | EUR thousand | EUR thousand | EUR million | EUR million | EUR million |
| <b>1. Interest income from</b>  |              |              |              |              |             |             |             |
| a) Lending and money market transactions  |              |              | 10,357,741   |              |             | 9,862       |             |
| b) Fixed-interest securities and debt register claims   |              |              | 861,928      | 11,219,669   |             | 795         | 10,657      |
| <b>2. Current income from</b>   |              |              |              |              |             |             |             |
| a) Shares and other non-fixed rate securities   |              |              | 31,792       |              |             | 32          |             |
| b) Investments  |              |              | 7,673        |              |             | 9           |             |
| c) Investments in associated enterprises  |              |              | 0            |              |             | 0           |             |
| d) Shares in affiliated enterprises   |              |              | 0            | 39,465       |             | 0           | 41          |
| <b>3. Commissions and similar service charges earned</b>  |              |              |              | 413,077      |             |             | 391         |
| <b>4. Net earnings on financial transactions</b>  |              |              |              | -            |             |             | 4           |
| <b>5. Earnings on allocations to investments, shares in affiliated enterprises and securities treated as fixed assets</b> |              |              |              | 4,422        |             |             | 1           |
| <b>6. Other operating income</b>  |              |              |              | 31,230       |             |             | 28          |

Total income

11,707,863

11,122

# ANNEX AND GROUP ANNEX.

## CONSOLIDATED COMPANIES AND THE PRINCIPLES OF CONSOLIDATION.

The consolidated financial statements include, beside Kreditanstalt für Wiederaufbau, KfW International Finance Inc., Delaware, USA, Finanzierungs- und Beratungsgesellschaft mbH, Berlin and DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne. Two other affiliated enterprises are not included in the consolidated financial statements, because their results are of only minor significance for the presentation of the assets, financial situation and earnings of the Group.

Owing to the inclusion of DEG for the first time in the Group results the previous year's figures have been adjusted appropriately for better comparison.

The annual financial statements for the individual enterprises in the Group were drawn up in accordance with the accounting and valuation methods applying to KfW. Loans and advances and liabilities, and income and expenditure between the consolidated enterprises were netted.

The first consolidation was made by the book value method with the values stated on the Group's balance sheet date.

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

The inclusion for the first time of IKB Deutsche Industriebank AG as an associated enterprise was made by the book value method. The valuation was undertaken on the basis of the values stated on the date the bank was first included and resulted in a difference in the assets of EUR 139 million.

The annual financial statements for KfW International Finance Inc. are drawn up in foreign currency and the amounts were converted at the official middle rate on December 31, 2001.

## ACCOUNTING AND VALUATION METHODS.

The Financial Statements for 2001 for Kreditanstalt für Wiederaufbau and for the Group have been drawn up in accordance with the requirements of the Commercial Code, the Ordinance on Bank Accounting and the Law Concerning the Kreditanstalt für Wiederaufbau. The special provisions of the D-Mark Balance Sheet Law have also been observed. In the Financial Statements the reserves from the ERP Special Fund and the contractual allocation of interest earnings to these are now shown separately, as is the allocation to the Capital Reserves, which is shown

as a memo item. Statements on individual items in the Balance Sheet, which may be made either in the Balance Sheet or an Annex, are given in the Annex.

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

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

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

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

Provisions for pensions and other obligations were valued in accordance with actuarial principles on the basis of "Richttafeln für die Pensions-

versicherung" (Mortality and Disability Tables) of 1998 by Dr. Klaus Heubeck. For KfW the part-value method was used, with interest rates for accounting purposes of 3% and 6% respectively.

The other provisions are shown at their expected recourse value.

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

## NOTES ON THE ASSETS.

## Loans and Advances to Banks

EUR million

|   | At call    | Remaining term |                              |                             |                   | Pro rata interest | Total         |
|---|------------|----------------|------------------------------|-----------------------------|-------------------|-------------------|---------------|
|   |            | Up to 3 months | More than 3 months to 1 year | More than 1 year to 5 years | More than 5 years |                   |               |
| Dec. 31, 2001 KfW                                   | 21         | 6,395          | 4,808                        | 28,586                      | 64,528            | 2,522             | 106,860       |
| Dec. 31, 2001 Group                                 | 29         | 6,542          | 4,870                        | 28,753                      | 64,586            | 2,546             | 107,326       |
| <i>Dec. 31, 2001 KfW</i>                            | <i>290</i> | <i>7,336</i>   | <i>5,677</i>                 | <i>25,696</i>               | <i>52,982</i>     | <i>2,474</i>      | <i>94,455</i> |
| <i>Dec. 31, 2001 Group</i>                          | <i>331</i> | <i>7,379</i>   | <i>5,732</i>                 | <i>25,858</i>               | <i>53,051</i>     | <i>2,485</i>      | <i>94,836</i> |
|   |            |                |                              |                             |                   | <b>KfW</b>        | <b>Group</b>  |
| <i>of which to:</i>                                 |            |                |                              |                             |                   |                   |               |
| <i>Affiliated enterprises</i>                       |            |                |                              |                             |                   | 7                 | 0             |
| <i>Enterprises in which a participation is held</i> |            |                |                              |                             |                   | 5,872             | 5,899         |
| <i>Without handling banks' liability</i>            |            |                |                              |                             |                   | 2,291             | 2,291         |
| <i>Minor assets</i>                                 |            |                |                              |                             |                   | 0                 | 0             |

## Loans and Advances to Customers

EUR million

|   | With no fixed term | Remaining term |                              |                             |                   | Pro rata interest | Total         |
|---|--------------------|----------------|------------------------------|-----------------------------|-------------------|-------------------|---------------|
|   |                    | Up to 3 months | More than 3 months to 1 year | More than 1 year to 5 years | More than 5 years |                   |               |
| Dec. 31, 2001 KfW                                   | 0                  | 2,605          | 6,597                        | 30,530                      | 48,575            | 1,775             | 90,082        |
| Dec. 31, 2001 Group                                 | 0                  | 2,644          | 6,696                        | 30,950                      | 48,691            | 1,786             | 90,767        |
| <i>Dec. 31, 2001 KfW</i>                            | <i>0</i>           | <i>2,525</i>   | <i>5,260</i>                 | <i>27,254</i>               | <i>45,932</i>     | <i>1,708</i>      | <i>82,679</i> |
| <i>Dec. 31, 2001 Group</i>                          | <i>0</i>           | <i>2,642</i>   | <i>5,382</i>                 | <i>27,701</i>               | <i>46,061</i>     | <i>1,722</i>      | <i>83,508</i> |
|   |                    |                |                              |                             |                   | <b>KfW</b>        | <b>Group</b>  |
| <i>of which to::</i>                                |                    |                |                              |                             |                   |                   |               |
| <i>Affiliated enterprises</i>                       |                    |                |                              |                             |                   | 47                | 46            |
| <i>Enterprises in which a participation is held</i> |                    |                |                              |                             |                   | 0                 | 131           |
| <i>Minor assets</i>                                 |                    |                |                              |                             |                   | 873               | 873           |

## BONDS AND OTHER FIXED-INTEREST SECURITIES.

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

### Due the following year

EUR million

| Balance sheet date        | Dec. 31, 2001<br>KfW | Dec. 31, 2000<br>KfW | Dec. 31, 2001<br>Group | Dec. 31, 2000<br>Group |
|---------------------------|----------------------|----------------------|------------------------|------------------------|
| Money market paper, bonds | 4,465                | 7,384                | 4,168                  | 6,752                  |
| Par value                 | 4,464                | 7,383                | 4,171                  | 6,750                  |
| Own bond issues           | 1,263                | 205                  | 1,565                  | 863                    |
| Par value                 | 1,255                | 204                  | 1,553                  | 862                    |
| <b>Total</b>              | <b>5,728</b>         | <b>7,589</b>         | <b>5,733</b>           | <b>7,615</b>           |
| Par value                 | 5,719                | 7,587                | 5,724                  | 7,612                  |

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

EUR million

|  | KfW   | Group |
|--|-------|-------|
| Affiliated enterprises                       | 2,035 | 0     |
| Enterprises in which a participation is held | 25    | 25    |

The item "Bonds and other non-fixed rate securities" includes:

EUR million

|                              | KfW           | Group         |
|------------------------------|---------------|---------------|
| Listed securities            | 22,160        | 22,178        |
| Unlisted securities          | 235           | 235           |
| <b>Marketable securities</b> | <b>22,395</b> | <b>22,413</b> |

## SECURITIES TRANSACTIONS UNDER REPURCHASE AGREEMENTS.

In sell & buy back transactions securities to the book value of EUR 2,868 million were repurchased.

## FIXED ASSETS.

**Fixed Assets as per December 31, 2001 KfW**  
EUR thousand

|   |                |                 |                  |                    |                             | Changes <sup>1</sup><br>2001<br>(7) | Residual book<br>value as per<br>Dec. 31, 2001<br>(8) | Residual book<br>value as per<br>Dec. 31, 2000<br>(9) |                |
|---|----------------|-----------------|------------------|--------------------|-----------------------------|-------------------------------------|---|---|----------------|
| Investments   |                |                 |                  |                    |                             | 550,794                             | 568,434   | 17,640  |                |
| Shares in affiliated enterprises                      |                |                 |                  |                    |                             | 314,580                             | 326,470   | 11,890  |                |
| Securities treated as fixed assets                    |                |                 |                  |                    |                             | -6,359,044                          | 6,912,329   | 13,271,373  |                |
| <b>Total</b>  |                |                 |                  |                    |                             | <b>-5,493,670</b>                   | <b>7,807,233</b>                                      | <b>13,300,903</b>                                     |                |
| Acquisition/<br>production costs <sup>2)</sup><br>(1) | Inflows<br>(2) | Outflows<br>(3) | Transfers<br>(4) | Allocations<br>(5) | Write-downs/<br>Adjustments |                                     | Residual book<br>value as per<br>Dec. 31, 2001<br>(8) | Residual book<br>value as per<br>Dec. 31, 2000<br>(9) |                |
|   |                |                 |                  |                    | Total<br>(6)                | 2001<br>(7)                         |   |   |                |
| Intangible assets                                     | 15,221         | 8,842           | 11               | 0                  | 0                           | 16,015                              | 4,841   | 8,037   | 4,045          |
| Tangible assets <sup>3)</sup>                         | 435,767        | 96,845          | 10,193           | 0                  | 0                           | 99,733                              | 22,483  | 422,686   | 355,552        |
| <b>Sum</b>  | <b>450,988</b> | <b>105,687</b>  | <b>10,204</b>    | <b>0</b>           | <b>0</b>                    | <b>115,748</b>                      | <b>27,324</b>   | <b>430,723</b>  | <b>359,597</b> |
| <b>Total</b>  |                |                 |                  |                    |                             |                                     | <b>8,237,956</b>                                      | <b>13,660,500</b>                                     |                |

<sup>1)</sup> Including price changes

<sup>2)</sup> The Relief Facility under §31 (6) of the EC Commercial Code has been utilized

<sup>3)</sup> Of which as per December 31, 2001: - total value of land and buildings used for the bank's activities EUR 399,139,000  
- total value of office furniture and equipment EUR 23,547,000

**Fixed Assets as per December 31, 2001 Group**  
EUR thousand

|                                    |  |  |  |  |  | Changes <sup>1</sup><br>2001<br>(7) | Residual book<br>value as per<br>Dec. 31, 2001<br>(8) | Residual book<br>value as per<br>Dec. 31, 2000<br>(9) |
|------------------------------------|--|--|--|--|--|-------------------------------------|---|---|
| Investments                        |  |  |  |  |  | 587,229                             | 753,587   | 166,358   |
| Shares in affiliated enterprises   |  |  |  |  |  | 0                                   | 11,854  | 11,854  |
| Securities treated as fixed assets |  |  |  |  |  | -6,359,044                          | 6,912,329   | 13,271,373  |
| <b>Total</b>                       |  |  |  |  |  | <b>-5,771,815</b>                   | <b>7,677,770</b>                                      | <b>13,449,585</b>                                     |

|                               | Acquisition/<br>production costs <sup>2)</sup> | Inflows        | Outflows      | Transfers | Allocations | Write-downs/<br>Adjustments |               | Residual book<br>value as per | Residual book<br>value as per |
|-------------------------------|--|----------------|---------------|-----------|-------------|-----------------------------|---------------|-------------------------------|-------------------------------|
|                               | (1)  | (2)            | (3)           | (4)       | (5)         | Total<br>(6)                | 2001<br>(7)   | Dec. 31, 2001<br>(8)          | Dec. 31, 2000<br>(9)          |
| Intangible assets             | 16,833   | 9,706          | 52            | 0         | 0           | 17,624                      | 5,140         | 8,863                         | 6,702                         |
| Tangible assets <sup>3)</sup> | 458,270  | 98,464         | 12,573        | 0         | 0           | 111,520                     | 23,825        | 432,641                       | 365,623                       |
| <b>Sum</b>                    | <b>475,103</b>                                 | <b>108,170</b> | <b>12,625</b> | <b>0</b>  | <b>0</b>    | <b>129,144</b>              | <b>28,965</b> | <b>441,504</b>                | <b>372,325</b>                |
| <b>Total</b>                  |  |                |               |           |             |                             |               | <b>8,119,274</b>              | <b>13,821,910</b>             |

<sup>1)</sup> Including price changes

<sup>2)</sup> The Relief Facility under § 31 (6) of the EC Commercial Code has been utilized

<sup>3)</sup> Of which as per December 31, 2001: – total value of land and buildings used for the Group's activities EUR 401,392,000

– total value of office furniture and equipment EUR 31,298,000

Bonds and other fixed-rate securities, as well as shares and other non-fixed rate securities, intended as a permanent part of operations and so usually held until maturity date, have been included with the securities treated as fixed assets. They are shown separately in the accounts and valued following the lower of cost or market principle (modified).

The book value of the marketable bonds not valued at the lower of cost or market and included in the item "Bonds and Other Fixed-rate Securities" is EUR 5,655 million.



The item "Shares and other non-fixed rate securities" includes:

EUR million

|                              | KfW           | Group         |
|------------------------------|---------------|---------------|
| Listed securities            | 9,102         | 9,102         |
| Unlisted securities          | 1,832         | 1,832         |
| <b>Marketable securities</b> | <b>10,934</b> | <b>10,934</b> |

The entire holding is valued at the lower of cost or market.

### Information on Equity Investments

EUR thousand and %

The companies numbered 1) to 3) are included in the consolidated financial statements as subsidiaries, and 4) is an associated enterprise.

| Name and domicile of company  | Share held in % | Equity capital <sup>1)</sup> EUR thousand | Net income <sup>1)</sup> EUR thousand |
|---|-----------------|---|---------------------------------------|
| 1. DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne | 100.0           | 894,605                                   | 20,640                                |
| 2. Finanzierungs- und Beratungsgesellschaft mbH, Berlin                 | 100.0           | 10,594                                    | 5,481                                 |
| 3. KfW International Finance Inc., Delaware, USA                        | 100.0           | 11 <sup>2)</sup>                          | 0 <sup>2)</sup>                       |
| 4. IKB Deutsche Industriebank AG, Düsseldorf                            | 34.1            | 1,293,900 <sup>3)</sup>                   | 85,911 <sup>3)</sup>                  |

<sup>1)</sup> As per Dec. 31, 2001

<sup>2)</sup> Converted at the rate on Dec. 31, 2001 (EUR 1 = USD 0.8813)

<sup>3)</sup> As per December 31, 2001

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

The item "Investments" includes:

EUR thousand

|                              | KfW            | Group          |
|------------------------------|----------------|----------------|
| Listed securities            | 556,866        | 594,145        |
| Unlisted securities          | 8,000          | 8,000          |
| <b>Marketable securities</b> | <b>564,866</b> | <b>602,145</b> |

#### Assets on a Trust Basis

EUR million

|                                 | KfW |              | Group |              |
|---------------------------------|-----|--------------|-------|--------------|
| Loans and advances to banks     |     |              |       |              |
| a) At call                      | 229 |              | 230   |              |
| b) Other loans and advances     | 570 | 799          | 730   | 960          |
| Loans and advances to customers |     | 6,609        |       | 6,638        |
| Investments                     |     | 0            |       | 84           |
| <b>Total</b>                    |     | <b>7,408</b> |       | <b>7,682</b> |

#### OTHER ASSETS.

The item "Other Assets" consists mainly of amounts from foreign currency valuations totalling EUR 326 million.

#### PREPAID EXPENSES AND DEFERRED CHARGES.

The difference contained in the item "Prepaid Expenses and Deferred Charges" between the higher repayment amount and the lower issue amount of liabilities is EUR 779 million.

## NOTES ON LIABILITIES.

## Maturities Structure of Borrowed Funds

EUR million

|   | At call      | Remaining term |                              |                             |                   | Pro rata interest | Total          |
|---|--------------|----------------|------------------------------|-----------------------------|-------------------|-------------------|----------------|
|   |              | Up to 3 months | More than 3 months to 1 year | More than 1 year to 5 years | More than 5 years |                   |                |
| Funds borrowed from banks with agreed term or period of notice                                |              |                |                              |                             |                   |                   |                |
| KfW   | 868          | 5,900          | 3,610                        | 13,211                      | 18,067            | 2,697             | 44,353         |
| Group   | 808          | 5,900          | 3,611                        | 13,441                      | 18,096            | 2,701             | 44,557         |
| <i>as per Dec. 31, 2001 KfW</i>   | 559          | 2,408          | 3,607                        | 17,921                      | 20,680            | 2,880             | 48,055         |
| <i>as per Dec. 31, 2001 Group</i>   | 558          | 2,408          | 3,608                        | 18,130                      | 20,735            | 2,884             | 48,323         |
| Funds borrowed from customers:<br>– other borrowed funds with agreed term or period of notice |              |                |                              |                             |                   |                   |                |
| KfW   | 267          | 7,215          | 12,672                       | 48,412                      | 32,763            | 2,230             | 103,559        |
| Group   | 279          | 2,231          | 2,378                        | 11,067                      | 19,643            | 719               | 36,317         |
| <i>as per Dec. 31, 2001 KfW</i>   | 586          | 6,174          | 8,100                        | 41,061                      | 42,763            | 2,176             | 100,860        |
| <i>as per Dec. 31, 2001 Group</i>   | 595          | 1,659          | 1,873                        | 10,007                      | 18,433            | 571               | 33,138         |
| <b>KfW</b>  | <b>1,135</b> | <b>13,115</b>  | <b>16,282</b>                | <b>61,623</b>               | <b>50,830</b>     | <b>4,927</b>      | <b>147,912</b> |
| <b>Group</b>  | <b>1,087</b> | <b>8,131</b>   | <b>5,989</b>                 | <b>24,508</b>               | <b>37,739</b>     | <b>3,420</b>      | <b>80,874</b>  |
| in %  |              |                |                              |                             |                   |                   |                |
| <b>KfW</b>  | <b>1</b>     | <b>9</b>       | <b>11</b>                    | <b>42</b>                   | <b>34</b>         | <b>3</b>          | <b>100</b>     |
| <b>Group</b>  | <b>1</b>     | <b>10</b>      | <b>8</b>                     | <b>30</b>                   | <b>47</b>         | <b>4</b>          | <b>100</b>     |
| Due the following year  |              |                |                              |                             |                   |                   |                |
|   |              | KfW            |                              | Group                       |                   |                   |                |
| Securitized liabilities<br>– bonds issued   |              | 15,937         |                              | 31,250                      |                   |                   |                |
| <i>as per December 31, 2000</i>   |              | 15,695         |                              | 28,392                      |                   |                   |                |

## COLLATERAL GIVEN FOR THE GROUP'S OWN LIABILITIES.

For liabilities to banks collateral totalling EUR 77 million was given.

### Liabilities to Affiliated Enterprises and Enterprises in which the Group holds a Participation EUR million

|                               | Securitized and non-securitized liabilities |          |   |                   |
|-------------------------------|---|----------|---|-------------------|
|                               | To affiliated enterprises                   |          | To enterprises in which the Group holds a participation |                   |
|                               | KfW   | Group    | KfW   | Group             |
| Funds borrowed from banks     | 60  | 0        | 0   | 0                 |
| Funds borrowed from customers | 67,412                                      | 1        | 0   | 0                 |
| Securitized liabilities       | 0   | 0        | 0   | 527 <sup>1)</sup> |
| <b>Total</b>                  | <b>67,472</b>                               | <b>1</b> | <b>0</b>  | <b>527</b>        |

<sup>1)</sup> as far as can be ascertained

### Liabilities on a Trust Basis EUR million

|  | KfW          |       | Group        |       |
|--|--------------|-------|--------------|-------|
| Funds borrowed from banks                |              |       |              |       |
| a) At call                               | 6            |       | 6            |       |
| b) With agreed term or period of notice  | 76           | 82    | 76           | 82    |
| Funds borrowed from customers            |              |       |              |       |
| a) Savings deposits                      | 0            |       | 0            |       |
| b) Other liabilities                     |              |       |              |       |
| ba) At call                              | 797          |       | 797          |       |
| bb) With agreed term or period of notice | 6,529        | 7,326 | 6,719        | 7,516 |
| Investments                              |              | 0     |              | 84    |
| <b>Total</b>                             | <b>7,408</b> |       | <b>7,682</b> |       |

#### OTHER LIABILITIES.

The "Other Liabilities" are mainly liabilities on leasing business.

#### DEFERRED INCOME.

This item includes discounts on claims totalling EUR 579 million.

#### EQUITY CAPITAL.

##### The Group's Equity Capital EUR million

|  | Dec. 31, 2000  | Allocation 2001 | Dec. 31, 2001  |
|--|----------------|-----------------|----------------|
| KfW's subscribed capital                               | 511.3          | 0.0             | 511.3          |
| Capital reserves                                       | 1,738.5        | 0.0             | 1,738.5        |
| Reserve from the ERP Special Fund                      | 490.5          | 34.2            | 524.7          |
| Retained earnings                                      |                |                 |                |
| a) Statutory reserve under § 10 (2) KfW Law            | 63.9           | 0.0             | 63.9           |
| b) Special reserve under § 10 (3) KfW Law              | 3,088.1        | 185.6           | 3,273.7        |
| c) Special reserve under § 17 (4) DM Balance Sheet Law | 47.6           | 0.0             | 47.6           |
| d) Other retained earnings                             | 449.1          | 18.7            | 467.8          |
| <b>Total</b>   | <b>6,389.0</b> | <b>238.5</b>    | <b>6,627.5</b> |

Of the Group's net income for the year of EUR 207 million an amount corresponding to KfW's net income for the year of EUR 186 million was allocated to the special reserve in accordance with § 10 (3) of the KfW Law. The net income for the year of EUR 26 million achieved by the consolidated subsidiaries was allocated to the other retained earnings. KfW's equity capital is EUR 6,160 million.

#### OTHER REQUIRED NOTES ON THE LIABILITIES.

##### CONTINGENT LIABILITIES.

The Group's liabilities under guarantees total EUR 12,899 million. Of the total amount as per Dec. 31, 2001 EUR 8,688 million was credit default swaps, EUR 4,207 million was guarantees on loans (of which guarantees for aircraft finance totalled EUR 1,631 million, guarantees on special loans EUR 750 million and guarantees for housing construction EUR 580 million). EUR 4 million were letters of credit.

The new guarantees for third party risks given in 2001 amounted to EUR 6,652 million; they result mainly from the assumption of third party risks of credit default in connection with securitization to a total of EUR 5,164 million. Altogether EUR 720 million was redeemed.

#### OTHER OBLIGATIONS.

Irrevocable loan commitments total EUR 25,264 million, of which EUR 12,931 million is export and project finance, EUR 8,411 million investment finance, EUR 3,164 million is loans to promote the developing countries and EUR 758 million is guarantees.

### NOTES ON THE STATEMENT OF INCOME.

#### GEOGRAPHICAL MARKETS.

A geographical distribution of the total amounts shown in certain income items in accordance with §34 (2), No. 1 of the Ordinance on Bank Accounting has not been made, as Kreditanstalt für Wiederaufbau does not maintain any foreign branches.

### OTHER NOTES REQUIRED.

#### ASSETS AND DEBTS IN FOREIGN CURRENCIES.

The assets and debts in foreign currencies and the cash transactions not completed on the balance sheet date have been converted into euros at the official middle rates quoted on December 31, 2001.

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

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

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

As per December 31, 2001 total assets in foreign currencies were EUR 61.1 billion, converted in accordance with §340 h (1) of the Commercial Code.

Total debts in foreign currencies were EUR 89.0 billion.

## NOTES ON TRANSACTIONS BEARING A MARKET RISK.

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

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

## DERIVATIVES BUSINESS.

## Derivatives Business

EUR million

|   | Nominal values | Nominal values | Replacement-costs <sup>1)</sup> | Credit risk equivalents <sup>1)</sup> |
|---|----------------|----------------|---------------------------------|---------------------------------------|
|   | Dec. 31, 2001  | Dec. 31, 2000  | Dec. 31, 2001                   | Dec. 31, 2001                         |
| <b>Volumes</b>                            |                |                |                                 |                                       |
| <b>Contracts with interest rate risks</b> |                |                |                                 |                                       |
| Interest rate swaps                       | 144,646        | 107,797        | 4,440                           | 891                                   |
| Caps and floors <sup>2)</sup>             | 2              | 0              |                                 |                                       |
|   | 144,648        | 107,797        | 4,440                           | 891                                   |
| Others                                    | 26             | 26             |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>144,674</b> | <b>107,823</b> | <b>4,440</b>                    | <b>891</b>                            |
| <b>Contracts with currency risks</b>      |                |                |                                 |                                       |
| Cross-currency swaps                      | 49,533         | 41,645         | 5,936                           | 1,232                                 |
| FX swaps                                  | 4,683          | 7,121          | 166                             | 33                                    |
| Forward exchange deals                    | 345            | 120            | 21                              | 4                                     |
| Others                                    | 0              | 21             |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>54,561</b>  | <b>48,907</b>  | <b>6,123</b>                    | <b>1,269</b>                          |
| <b>Contracts with other price risks</b>   |                |                |                                 |                                       |
| Share options under standstill agreements | 161            | 161            |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>161</b>     | <b>161</b>     |                                 | <b>0</b>                              |
| <b>Credit derivatives<sup>4)</sup></b>    |                |                |                                 |                                       |
| Purchases                                 | 8,688          | 3,524          |                                 | 0                                     |
| Sales                                     | 8,688          | 3,524          |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>17,376</b>  | <b>7,048</b>   |                                 | <b>0</b>                              |

| Nominal Values<br>EUR million  | Interest risks |                | Currency risks |               | Other price risks |               | Credit derivatives |               |
|--------------------------------|----------------|----------------|----------------|---------------|-------------------|---------------|--------------------|---------------|
|                                | Dec. 31, 2001  | Dec. 31, 2000  | Dec. 31, 2001  | Dec. 31, 2000 | Dec. 31, 2001     | Dec. 31, 2000 | Dec. 31, 2001      | Dec. 31, 2000 |
| <b>Terms</b>                   |                |                |                |               |                   |               |                    |               |
| With remaining terms of        |                |                |                |               |                   |               |                    |               |
| ■ up to 3 months               | 4,155          | 4,945          | 3,251          | 5,579         | 0                 | 0             | 0                  | 0             |
| ■ more than 3 months to 1 year | 11,330         | 5,792          | 6,626          | 7,718         | 0                 | 0             | 0                  | 0             |
| ■ more than 1 year to 5 years  | 68,867         | 43,299         | 26,550         | 20,432        | 161               | 161           | 0                  | 0             |
| ■ more than 5 years            | 60,322         | 53,787         | 18,134         | 15,178        | 0                 | 0             | 17,376             | 7,048         |
| <b>Total<sup>1)</sup></b>      | <b>144,674</b> | <b>107,823</b> | <b>54,561</b>  | <b>48,907</b> | <b>161</b>        | <b>161</b>    | <b>17,376</b>      | <b>7,048</b>  |

<sup>1)</sup> On December 31, 2001 KfW had deposited a total of EUR 979.3 million as security for derivatives transactions. All contracts are valued by the mark-to-market method; all contracts with positive market values (without netting) with add-on have been included. The market value (after netting) with add-on (after netting) was EUR 5,295 million on December 31, 2001

<sup>2)</sup> Without "embedded" caps and floors; previous year's figures adjusted accordingly

<sup>3)</sup> OTC contracts

<sup>4)</sup> All credit derivatives purchased were synthetic credit derivatives (credit default swaps); they are included in the item "Contingent liabilities"

#### EUR million

|                           | Nominal values | Nominal values | Replacement-costs <sup>1)</sup> | Credit risk equivalents <sup>1)</sup> |
|---------------------------|----------------|----------------|---------------------------------|---------------------------------------|
|                           | Dec. 31, 2001  | Dec. 31, 2000  | Dec. 31, 2001                   | Dec. 31, 2001                         |
| <b>Counterparties</b>     |                |                |                                 |                                       |
| OECD banks                | 163,832        | 130,358        | 8,133                           | 1,627                                 |
| Banks outside the OECD    | 110            | 0              | 0                               | 0                                     |
| Others                    | 52,355         | 33,327         | 2,408                           | 533                                   |
| Public authorities        | 475            | 254            | 22                              | 0                                     |
| <b>Total<sup>2)</sup></b> | <b>216,772</b> | <b>163,939</b> | <b>10,563</b>                   | <b>2,160</b>                          |

<sup>1)</sup> On December 31, 2001 KfW had deposited EUR 979.3 million as security for derivatives business. All contracts are valued according to the mark-to-market method; all contracts with positive market values (without netting) with add-on have been included. The market value (after netting) with add-on (after netting) was EUR 5,295 million on Dec. 31, 2001.

<sup>2)</sup> OTC contracts



**KfW Group**  
 EUR million

|   | Nominal values | Nominal values | Replacement-costs <sup>1)</sup> | Credit risk equivalents <sup>1)</sup> |
|---|----------------|----------------|---------------------------------|---------------------------------------|
|   | Dec. 31, 2001  | Dec. 31, 2000  | Dec. 31, 2001                   | Dec. 31, 2001                         |
| <b>Volumes</b>                            |                |                |                                 |                                       |
| <b>Contracts with interest rate risks</b> |                |                |                                 |                                       |
| Interest rate swaps                       | 145,600        | 108,537        | 4,458                           | 896                                   |
| Forward rate agreements                   | 10             | 0              |                                 |                                       |
| Caps and floors <sup>2)</sup>             | 41             | 28             |                                 |                                       |
|   | 145,651        | 108,565        | 4,458                           | 896                                   |
| Others                                    | 26             | 26             |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>145,677</b> | <b>108,591</b> | <b>4,458</b>                    | <b>896</b>                            |
| <b>Contracts with currency risks</b>      |                |                |                                 |                                       |
| Cross-currency swaps                      | 50,004         | 42,072         | 5,940                           | 1,238                                 |
| FX swaps                                  | 4,683          | 7,121          | 166                             | 33                                    |
| Forward exchange deals                    | 345            | 120            | 21                              | 4                                     |
| Currency options                          | 0              | 20             |                                 |                                       |
| Others                                    | 0              | 21             |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>55,032</b>  | <b>49,354</b>  | <b>6,127</b>                    | <b>1,275</b>                          |
| <b>Contracts with other price risks</b>   |                |                |                                 |                                       |
| Share options under standstill agreements | 161            | 161            |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>161</b>     | <b>161</b>     |                                 | <b>0</b>                              |
| <b>Credit derivatives<sup>4)</sup></b>    |                |                |                                 |                                       |
| Purchases                                 | 8,688          | 3,524          |                                 | 0                                     |
| Sales                                     | 8,688          | 3,524          |                                 | 0                                     |
| <b>Total<sup>3)</sup></b>                 | <b>17,376</b>  | <b>7,048</b>   |                                 | <b>0</b>                              |

| Nominal values<br>EUR million  | Interest risks |                | Currency risks |               | Other price risks |               | Credit derivatives |               |
|--------------------------------|----------------|----------------|----------------|---------------|-------------------|---------------|--------------------|---------------|
|                                | Dec. 31, 2001  | Dec. 31, 2000  | Dec. 31, 2001  | Dec. 31, 2000 | Dec. 31, 2001     | Dec. 31, 2000 | Dec. 31, 2001      | Dec. 31, 2000 |
| <b>Terms</b>                   |                |                |                |               |                   |               |                    |               |
| <b>With remaining terms of</b> |                |                |                |               |                   |               |                    |               |
| ■ up to 3 months               | 4,178          | 4,961          | 3,251          | 5,599         | 0                 | 0             | 0                  | 0             |
| ■ more than 3 months to 1 year | 11,494         | 5,840          | 6,671          | 7,764         | 0                 | 0             | 0                  | 0             |
| ■ more than 1 year to 5 years  | 69,357         | 43,679         | 26,919         | 20,738        | 161               | 161           | 0                  | 0             |
| ■ more than 5 years            | 60,648         | 54,111         | 18,191         | 15,253        | 0                 | 0             | 17,376             | 7,048         |
| <b>Total<sup>3)</sup></b>      | <b>145,677</b> | <b>108,591</b> | <b>55,032</b>  | <b>49,354</b> | <b>161</b>        | <b>161</b>    | <b>17,376</b>      | <b>7,048</b>  |

<sup>1)</sup> On December 31, 2001 a total of EUR 979.3 million was deposited with KfW as security on derivatives transactions. All contracts are valued by the mark-to-market method; all contracts with positive market values (without netting) with add-on have been included. The market value (after netting) with add-on (after netting) was EUR 5,295 million on December 31, 2001.

<sup>2)</sup> Without "embedded" caps and floors; previous figures adjusted accordingly

<sup>3)</sup> OTC contracts

<sup>4)</sup> All credit derivatives purchased were synthetic loan derivatives (credit default swaps); they are included in the item "Contingent liabilities".

EUR million

|                           | Nominal values | Nominal values | Replacement-        | Credit risk               |
|---------------------------|----------------|----------------|---------------------|---------------------------|
|                           | Dec. 31, 2001  | Dec. 31, 2000  | costs <sup>1)</sup> | equivalents <sup>1)</sup> |
|                           | Dec. 31, 2001  | Dec. 31, 2000  | Dec. 31, 2001       | Dec. 31, 2001             |
| <b>Counterparties</b>     |                |                |                     |                           |
| OECD banks                | 165,218        | 131,479        | 8,154               | 1,637                     |
| Banks outside the OECD    | 120            | 11             | 0                   | 0                         |
| Others                    | 52,433         | 33,410         | 2,409               | 534                       |
| Public authorities        | 475            | 254            | 22                  | 0                         |
| <b>Total<sup>2)</sup></b> | <b>218,246</b> | <b>165,154</b> | <b>10,585</b>       | <b>2,171</b>              |

<sup>1)</sup> On December 31, 2001 KfW had deposited EUR 979.3 million as security for derivatives business. All contracts are valued according to the mark-to-market method; all contracts with positive market values (without netting) with add-on have been included. The market value (after netting) with add-on (after netting) was EUR 5,295 million on Dec. 31, 2001.

<sup>2)</sup> OTC contracts

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

The loans in the name of third parties and for third party account totalled EUR 1,769 million as per December 31, 2001.

#### PERSONNEL.

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

|   | 2001 KfW     | 2000 KfW     | 2001 Group   | 2000 Group   |
|---|--------------|--------------|--------------|--------------|
| Female employees                        | 966          | 917          | 1,217        | 1,143        |
| Male employees                          | 1,097        | 1,015        | 1,324        | 1,233        |
| Staff not on collective wage agreements | 1,385        | 1,213        | 1,648        | 1,452        |
| Staff on collective wage agreements     | 678          | 719          | 893          | 924          |
| <b>Total</b>                            | <b>2,063</b> | <b>1,932</b> | <b>2,541</b> | <b>2,376</b> |

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

The total remuneration paid to members of the Board of Managing Directors of the Group for 2001 was EUR 1,874,000, while the remuneration paid to members of the Board of Supervisory Directors of KfW was EUR 174,000.

A liability of EUR 24,693,000 had been accrued at Dec. 31, 2001 for obligations under pension arrangements for retired members of the Board of Managing Directors and their surviving dependants; current payments amounted to EUR 1,905,000.

Loans and advances to members of the Board of Managing Directors amounted to EUR 113,000 on Dec. 31, 2001.

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

**Hans W. Reich**

ALSTOM GmbH, Frankfurt am Main  
DePfa Deutsche Pfandbrief Bank AG, Wiesbaden  
Deutsche Energie-Agentur GmbH, Berlin  
Deutsche Telekom AG, Bonn  
HUK-Coburg Versicherungsgruppe AG, Coburg  
IKB Deutsche Industriebank AG, Düsseldorf  
RAG Aktiengesellschaft, Essen  
Thyssen Krupp Steel AG, Duisburg

**Dr. Peter Klaus**

Allgemeine HypothekenBank Rheinboden AG,  
Frankfurt am Main  
Babcock Borsig AG, Oberhausen  
debis AirFinance B.V., Amsterdam  
Deutsche VerkehrsBank AG, Frankfurt am Main  
Frachtcontor Junge & Co., Hamburg  
Georgsmarienhütte Holding GmbH, Georgsmarienhütte  
Germanischer Lloyd, Hamburg  
ThyssenKrupp Technologies AG, Essen

**Ingrid Matthäus-Maier**

DEG – Deutsche Investitions- und  
Entwicklungsgesellschaft mbH, Cologne  
Deutsche BauBeCon AG, Hannover  
European Investitionsbank (EIB), Luxemburg  
Salzgitter Handel GmbH, Düsseldorf

**Detlef Leinberger**

Deutsche Energie-Agentur GmbH, Berlin  
DtA-Beteiligungs-Holding-AG, Berlin  
European Investitionsfonds, Luxemburg  
Landwirtschaftliche Rentenbank,  
Frankfurt am Main

**Wolfgang Kroh**

DEG – Deutsche Investitions- und  
Entwicklungsgesellschaft mbH, Cologne

**Gerhard Lewark, Rüdiger Saß, Detlef Vogt**

KfW International Finance Inc., Delaware, USA

as per December 31, 2001

## BOARD OF SUPERVISORY DIRECTORS.

### **Hans Eichel**

Federal Minister of Finance  
Chairman

### **Dr. Werner Müller**

Federal Minister of  
Economics and Technology  
Deputy Chairman

### **Peter Benz**

Lord Mayor of the City of Darmstadt  
Representative of the Municipalities

### **Kurt Bodewig**

Federal Minister of Transport,  
Building and Housing

### **Anton F. Börner**

President of the Bundesverband  
des Deutschen Gross- und Aussen-  
handels e.V.  
Representative of Trade

### **Dr. Ulrich Brixner**

Chairman of the Board of Managing  
Directors of DZ BANK AG  
Representative of the Cooperative  
Banks  
(since Jan. 1, 2002)

### **Prof. Dr. Kurt Faltlhauser**

Minister of Finance of  
the Free State of Bavaria  
Member appointed by  
the Bundesrat (Upper House)  
(until Dec. 31, 2001)

### **Joschka Fischer**

Federal Minister of Foreign Affairs

### **Lutz Freitag**

President of the GdW Bundesver-  
band deutscher Wohnungsunter-  
nehmen e.V.  
Representative of Housing  
(since Jan. 1, 2002)

### **Dr. Rolf-Jürgen Freyberg**

Spokesman of the Board of  
Managing Directors of BGAG  
Beteiligungsgesellschaft der  
Gewerkschaften AG  
Representative of the Trade Unions

### **Karl-Heinz Funke**

Federal Minister of Food,  
Agriculture and Forestry (ret.)  
(until Jan. 9, 2001)

### **Wolfgang Gerhards**

Minister of Finance of the  
State of Saxony-Anhalt  
Member appointed by  
the Bundesrat (Upper House)

### **Dr. Frank Heintzeler**

Spokesman of the Board of  
Managing Directors of Baden-  
Württembergische Bank AG  
Representative of the Commercial  
Banks

### **Dr. Dietrich H. Hoppenstedt**

President of the Deutscher Sparkassen-  
und Giroverband e.V.  
Representative of the Savings Banks

### **Dr. Karsten von Köller**

Member of the Board of  
Managing Directors of RHEINHYP  
Rheinische Hypothekbank AG  
Representative of the  
Mortgage Banks

### **Ursula Konitzer**

ver.di Bundesvorstand  
Representative of the Trade Unions

### **Christiane Krajewski**

Senator of Finance of the  
State of Berlin  
Member appointed by  
the Bundesrat (Upper House)  
(from Sept. 27, 2001 to Jan. 16, 2002)

### **Renate Künast**

Federal Minister of Consumer  
Protection, Food and Agriculture

### **Peter Kurth**

Senator of Finance of the  
State of Berlin (ret.)  
Member appointed by  
the Bundesrat (Upper House)  
(until June 16, 2001)

### **Hartmut Perschau**

Mayor of the Free  
Hanseatic City of Bremen  
Member appointed by  
the Bundesrat (Upper House)

### **Heinz Putzhammer**

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

### **Dr. Michael Rogowski**

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

### **Hanns-Eberhard Schleyer**

Secretary-General of the Zentral-  
verband des Deutschen Handwerks  
Representative of the Crafts

### **Dr. Franz Schoser**

Managing Director of the  
Deutscher Industrie- und Handelstag  
Representative of Industry

### **Dieter Schulte**

Chairman of the Deutscher  
Gewerkschaftsbund  
Representative of the Trade Unions

### **Gerhard Sonnleitner**

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

### **Peer Steinbrück**

Minister of Finance of the  
State of North Rhine-Westphalia  
Member appointed by  
the Bundesrat (Upper House)

### **Erwin Teufel**

Minister President of the  
State of Baden-Württemberg  
Member appointed by  
the Bundesrat (Upper House)  
(since Jan. 1, 2002)

### **Dr. Bernd Thiemann**

Chairman of the Board of Managing  
Directors of Deutscher Genossen-  
schaftsbank AG (ret.)  
Representative of the Cooperative  
Banks  
(until Dec. 31, 2001)

### **Dr. Alexander von Tippelskirch**

Spokesman of the Board of  
Managing Directors of IKB Deutsche  
Industriebank Aktiengesellschaft  
Representative of the Industrial  
Loan Banks

### **Jürgen Trittin**

Federal Minister of the Environment,  
Nature Protection and Reactor Safety

### **Dr. Werner Upmeier**

Chairman of the Bundesverband  
Freier Wohnungsunternehmen e.V.  
Representative of Housing  
(until Dec. 31, 2001)

### **Heidmarie Wieczorek-Zeul**

Federal Minister of Economic  
Cooperation and Development

BOARD OF MANAGING DIRECTORS.

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



Dr. Peter Klaus



Detlef Leinberger



Hans W. Reich (Chairman)



Ingrid Matthäus-Maier



Wolfgang Kroh

Frankfurt am Main, February 5, 2002  
KREDITANSTALT FÜR WIEDERAUFBAU

## AUDITOR'S REPORT.

After concluding our examination we can give the following unrestricted approval:

## AUDITOR'S REPORT.

We have examined the financial statements, including the accounting of Kreditanstalt für Wiederaufbau, and the financial statements for the KfW Group drawn up by KfW, and the report on the situation of the bank and the Group for the financial year from January 1, 2001 to December 31, 2001. The accounting, the financial statements and the report on the situation of the bank are the responsibility of the Board of Managing Directors of Kreditanstalt für Wiederaufbau and must comply with the German regulations on commercial practice and the regulations in the Law on the Kreditanstalt für Wiederaufbau and its By-Laws. It is our task to assess the annual financial statements, the accounting, the financial statements for the group and the report on the situation of the bank and the group on the basis of an audit carried out by ourselves.

We carried out our examination in accordance with § 317 Commercial Code, observing the German principles of proper auditing established by the Institut der Wirtschaftsprüfer (IDW – Institute of Chartered Accountants). The principles state that the audit is to be planned and conducted so as to enable any inaccuracies and infringements that could materially affect the picture of the assets, financial and earnings situation as presented by the financial statements and the group financial statements, under observance of the principles of proper accounting, and the situation report to be recognized with adequate certainty. In drawing up the audit plan knowledge of the business activity and the economic and legal environment of the bank and the Group must be taken into account,

together with expectations of possible mistakes. In the course of the audit the effectiveness of the internal auditing control system and proof of the data in the accounting, financial statements and Group financial statements, and in the report on the situation of the bank and the Group must be assessed, mainly on the basis of random samples. For the bank's financial statements the audit includes an assessment of the principles to which the balance sheet has been drawn up, and for the Group's financial statements an assessment of the financial statements of the consolidated enterprises, the reasons for including them in the consolidated financial statements and the balance sheet and consolidation principles applied. For both sets of financial statements an assessment must be made of the key estimates by the Board of Managing Directors, and consideration must be given to the overall presentation of the annual and consolidated financial statements and the report on the situation of the bank and the Group. We are of the opinion that our examination provides sufficient basis for us to make a sound judgement.

We raise no objections on the basis of our examination.

We believe that the financial statements for the bank and for the Group have been drawn up in accordance with the principles of proper accounting and that they present an accurate picture of the assets, financial and earnings situation of Kreditanstalt für Wiederaufbau and the KfW Group. The report on the situation of the bank and the Group gives an accurate account of KfW and the Group and an accurate representation of the risks of future developments.

Frankfurt am Main, April 12, 2002

PwC Deutsche Revision, Aktiengesellschaft

Wirtschaftsprüfungsgesellschaft



Wagener

Wirtschaftsprüfer



ppa. Rave

Wirtschaftsprüfer

# KFW ORGANIZATION CHART.



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## Illustrations

Pages 3/4

All photographs (except for page 4 (4th from left) taken by Rüdiger Nehmzow. Photograph on page 4 (4th from left) taken by Elke Losskarn.

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Portraits of the board members  
KfW Bankengruppe/-

Page 8

Portrait of the chairman of the board  
of supervisory directors  
BMF

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A renovated panel building on  
Anton-Saefkow-Platz, Berlin  
Photo by Rüdiger Nehmzow

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Wind generators in the  
Zafarana Wind Park, Egypt  
Photo by Rüdiger Nehmzow

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Club cruise vessel in the Aker MTW yard,  
Wismar  
Photo by Rüdiger Nehmzow

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Bordshomi National Park, Georgia  
Photo by Rüdiger Nehmzow

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Vault at Deutsche Bank, Frankfurt am Main  
Photo by Rüdiger Nehmzow

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KfW Berlin Branch on Gendarmenmarkt  
Photo by Rüdiger Nehmzow

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Construction site of Terminal II at Munich Airport  
Photo by Rüdiger Nehmzow

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Printing machine assembly at MAN Roland,  
Augsburg  
Photo by Rüdiger Nehmzow

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Schneefernerhaus Environment Research Station,  
Zugspitze  
Photo by Rüdiger Nehmzow

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Kruger National Park, South Africa  
Photo by Elke Losskarn

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Westende Garden Housing Estate, Herdecke  
Photo by Rüdiger Nehmzow

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Dealing room at Deutsche Bank,  
Frankfurt am Main  
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