Management Report and Financial Statements 2015

KFW

Key figures of KfW

Overall activities of KfW

	2015 EUR in millions	2014 EUR in millions	2013 EUR in millions
Financial statements			
Volume of business	551,333	536,338	525,018
Balance sheet total	493,205	479,224	470,220
Bonds issued	412,308	402,256	389,979
Subordinated liabilities	300	2,247	2,247
Own funds	22,482	19,801	18,817
Net interest income before promotional activity	2,356	2,293	181
Net commission income before promotional activity	190	263	206
Administrative expense before promotional activity	971	932	825
Promotional activity (expense)	345	364	597
Profit for the year	1,331	883	654
Cost/income ratio before promotional activity	38	36	31
Tier 1 capital ratio[1)]	18.3	14.1	20.6
Total capital ratio[1)]	18.4	15.1	22.3
Employees	4,698	4,479	4,293

[1)] The regulatory total capital ratio and the tier 1 ratio are calculated for internal purposes. The figures relate to the whole KfW Group. From 2014 onwards, the basis for data will be the IFRS consolidated financial statements.

The figures in tables were calculated exactly and added up. Figures may not add up to totals because of rounding. Actual zero amounts and amounts rounded to zero are presented as EUR 0 million.

››› Responsible Banking

Contents

»» Management report

Economic report

General economic environment

The **global economy** lost momentum in 2015, although the picture was mixed across the different economic areas. The economy in the industrialised nations generally stabilised, driven by the United States, the euro area and Japan. This was facilitated by the positive development of both, the labour market and private consumption, low energy prices and the continuing favourable interest rate environment in those economies. Development was less positive in other industrialised nations in 2015. Various geopolitical risks and the uncertainty regarding an increase in interest rates by the US Federal Reserve put pressure on these economies in 2015. The uncertainty put also pressure on the economies in developing and emerging market countries, which recorded slower growth for the fifth consecutive year. Many large emerging markets, in particular, faced strong headwinds; some even entered recession. In China, growth remained above average, but the economic slowdown continued, albeit without being headed for a hard landing. The weak growth of many emerging markets was due to the rapid decline in commodities prices, the restructuring of the Chinese economy and high capital outflows from China in a short space of time. Adjustments to these factors have led to growth slumps. Structural problems are becoming more acute again in this environment and need to be overcome somehow to unleash long-term growth potential.

Economic recovery gained some momentum in the member states of the European **Economic and Monetary Union** (EMU). Overall, the economic output in EMU member states increased by 1.5 % year on year in 2015. Growth momentum therefore picked up slightly more than KfW had expected a year ago. Geopolitical conflicts were less problematic for the economy than had been anticipated, and financing conditions for business and private households improved considerably in the course of the year. Private consumption was the largest contributor to growth, buoyed by the drop in energy prices and gradual improvements in the labour markets. Exports were also instrumental to growth, due to favourable exchange rates, despite the weak global economic environment. However, foreign trade was neutral overall due to higher demand for imports.

Germany's underlying economic performance in 2015 was almost as strong as that of the previous year. However, the extra working days – a positive calendar effect of around a quarter percentage point – resulted in real growth of 1.7 %, slightly exceeding that of 2014 (+1.6 %), according to the second monthly estimate (February 2016) of the Federal Statistical Office. Domestic demand remained strong. Consumption was by far the key driver, having profited from the continuous increase in employment and a notable increase in real wages. Private investments in housing construction continued its climb that began in 2010 (broken only by a slight decline in 2013), albeit at a slightly slower pace. Private investments in equipment were in positive territory, as in 2014, while investments in commercial buildings decreased noticeably overall in 2015. Corporate investments mainly exhibited strong growth at the beginning of 2015 but came to a temporary halt later in the year, likely because fears of recession in key emerging markets unsettled German exporters, causing them to delay their investment decisions. Net exports (exports minus imports) only had a mildly positive effect on economic growth, despite solid export growth, as the increase in imports was higher than that of exports due to high domestic demand. A year ago KfW's projection for the trend in the expenditure components of gross domestic product (GDP) was reasonably accurate; however, economic growth was significantly above KfW's cautious forecast of around 1 % and also above the forecast consensus at the time of 1.3 %. The main reason for this was the unexpectedly large boost to growth in the winter half-year 2014/15, which pushed the annual average for 2015 upwards.

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

Given the persisting moderate macroeconomic growth rate and unusually low rate of inflation, the ECB took further expansionary monetary policy measures in 2015. An extended bond-buying programme was decided at the ECB's January meeting, with a total monthly volume of EUR 60 billion. The programme also included government and quasi-government bonds for the first time. In December 2015, it was announced that the programme would be extended until at least March 2017 and that the deposit rate would be further reduced to –0.30%. This environment caused money market rates to fall further in the euro area, all of them landing in negative territory by the end of the year. Yields in the longer maturity segments saw greater volatility during the year. In reaction to the ECB's bond-buying programme decided on in January and begun in March 2015, the yields on ten-year German government bonds fell to a new all-time low of 0.05% in April 2015. After a temporary jump to over 1% in the second quarter, the yields dropped again significantly in the second half of the year. This was partly due to the additional expansionary measures the ECB had discussed. Yields on ten-year German government bonds in 2015 were down an average of approximately 70 basis points in comparison with the previous year. Money market rates in the United States rose significantly during the year, due not least to heightened expectations by year-end of a US rate hike, which were confirmed in December by the US Federal Reserve's first interest rate increase in nine years. Yields on ten-year US government bonds trended slightly upwards with heightened volatility during the year. However, their annual average for 2015 was around 40 basis points lower than a year before. In both the United States and the euro area, the yield curve in 2015 flattened on average compared to 2014.

The differing monetary policies of the US Federal Reserve and the ECB had a major impact on the EUR/USD exchange rate. The euro depreciated considerably against the US dollar to its low for the year of USD 1.05 per EUR 1.00 while the annual average exchange rate in 2015 was around 1.11. This was equivalent to depreciation of almost 17% compared to the 2014 average.

Strategic objectives

KfW Group has a set of strategic objectives in place that define KfW's targeted medium-term positioning. This framework encompasses selected top-level objectives at the overall bank level and serves as a central, binding reference for the strategic orientation of all business sectors, with a five-year horizon.

The **primary objective of KfW is promotion** – the heart of KfW's business activities – abiding by the principles of subsidiarity and sustainability. KfW addresses the primary objective of promotion largely by focusing its promotional activities on the socially and economically important megatrends of "climate change and the environment", "globalisation and technical progress", and "demographic change".

In relation to the "climate change and the environment" megatrend, KfW finances measures to support renewable energy, improve energy efficiency, safeguard biodiversity and prevent and/or reduce environmental pollution. To address the special importance of this megatrend, KfW has set an environmental commitment ratio of around 35% of total new commitment volume. As part of the "globalisation and technical progress" megatrend, KfW contributes to strengthening the international competitiveness of German companies by granting loans in the following areas, among others: research and innovation, projects to secure Germany's supply of raw materials, and infrastructure and transport. With respect to the "demographic change" megatrend, KfW's objective is to address the consequences that result from a declining and aging population, including the following focus areas: age-appropriate infrastructure, vocational and further training, family policy and childcare as well as corporate succession. KfW also focuses on "non-trend-based promotional issues" that play an important role for KfW but that are not related to any of the three megatrends, such as combating poverty in developing countries.

In addition to focusing on the issues described above, the primary objective in the bank's strategic framework also extends to covering KfW's most important customer groups and regions as well as to ensuring promotional quality. For KfW, this means a commitment to maintain the high level of quality of its promotional products that it has achieved in recent years and sufficient coverage of KfW's key regions and customer groups. KfW aims to have around 45% of new domestic commitment volume utilised for the SMEs target group because of its special importance.

The stated priorities set for the primary objective are complemented by a set of **secondary objectives or strict ancillary conditions** that reflect profitability and efficiency, as well as risk-bearing capacity aspects. KfW acts in accordance with the principle of subsidiarity, and plans real zero growth as measured by the group's total commitment volume. Moreover, KfW's success depends upon continuing to pursue the path of professionalism in the modernisation process upon which it has embarked.

Internal management system

KfW has a closely interlinked strategy and planning process. The results of the planning process are summarised in the business strategy adopted by the Executive Board as well as the risk strategy derived therefrom. The business strategy comprises the group's strategic objectives for its main business activities as well as the contribution of the different business sectors to the strategic target system and measures for achieving each target. It also combines the operating budget at group and business sector levels. The Executive Board sets KfW Group's risk policies in its risk strategy, which comprises the group's strategic risk objectives and derived risk tolerance levels with a one-year horizon. KfW's Executive Board draws up the operating budget as well as the business and risk strategies. The budget is then presented to the supervisory body (Board of Supervisory Directors) for approval, along with the business and risk strategies for discussion (at the last Board of Supervisory Directors meeting each year).

Conceived as a group-wide strategy process, group business sector planning is KfW Group's central planning and management tool. Group business sector planning consists of two consecutive sub-processes that all KfW business sectors and subsidiaries perform every year: strategic planning and operational planning.

The group-wide strategic objectives set by the Executive Board form the basis for the strategic planning stage. Strategic medium-term courses of action are developed by the business sectors within this strategic activities framework. Assumptions are made with respect to the future development of determining factors on the basis of assessments of risks and opportunities. This analysis takes into account both external factors (including market development, regulatory requirements, the competitive situation and customer behaviour) and internal factors and resources (including human and physical resources, use of subsidy funds and primary cost planning) and targeted earnings levels. The central areas (e. g. information technology, human resources, and central services) also play important roles in achieving the strategic objectives. By involving the central areas in the planning phase, the consistency of their strategic considerations is aligned with the larger strategic objectives. Cost planning and Full-Time Equivalent (staff) planning are conducted in parallel to business sector strategic planning for all areas, applying a top-down approach. The underlying assumptions are reviewed annually via a rolling planning process. The Executive Board defines business sector objectives, including cost targets, for all sectors in the form of guidelines on the basis of a group-level assessment of these strategic considerations for the entire planning period.

The business sectors plan their new business, risks and earnings, and all areas of the bank plan their budgets based on these guidelines, taking into account any changes in external or internal factors. These plans are checked for consistency with the group's and the business sectors' strategic planning and for any risk implications. The Executive Board either approves the resultant operating budget or instructs the business sectors to fine-tune their plans in an adjustment round. Any changes to the business strategy are subject to consultation with the Risk Management department in order to ensure consistency of business and risk strategy. The operational planning process ends when management has adopted the final budget for the next financial year.

Adoption of the group business sector plans establishes the group's qualitative and quantitative objectives. The Executive Board reviews achievement of the objectives both on a regular and an ad hoc basis during the current financial year. The assumptions concerning external and internal factors made when determining the business strategy are also subject to regular checks. The development of relevant control variables, their attainment, and the cause of any failure in this respect are analysed on an ongoing basis as part of strategic controlling. Ad hoc issues of strategic relevance are also addressed in consultation with group areas. Recommendations for action concerning potential strategy adjustments or an optimised use of resources are made to the Executive Board by means of the strategic performance report. The results of the analysis are included in further strategy discussions and strategic planning processes. The achievement of objectives is regularly monitored by the Board of Supervisory Directors based on reports submitted to it according to the KfW Bylaws. The commentary in these reports outlines analyses of causes and any potential plans for action.

Comprehensive and detailed reports are prepared on a monthly/quarterly basis as part of operational controlling. These detailed analyses comprise earnings, cost and Full-Time Equivalent (staff) developments and are reported to specific departments. Additionally, complete analyses and extrapolations of significant relevance to the overall group performance are also presented directly to the Executive Board.

Development of KfW

2015 was a very successful promotional year for KfW. It made a key contribution to modernisation and social cohesion in Germany with its promotional products. **Promotional business volume** rose considerably from EUR 62.9 billion to a total volume of EUR 67.0 billion. Promotional activities focused on the socially and economically significant megatrends of "climate change and the environment", "globalisation and technical progress" and "demographic change". Funding opportunities remained favourable despite a volatile market environment.

KfW's **earnings position** developed positively in 2015, exceeding the figure for 2014, due in part to special circumstances. Net interest income before promotional activity was slightly above the prior year's figure, and positive effects from risk provisions for lending business also contributed to the extraordinary net income for the year. The cost/income ratio (before promotional activity) increased only slightly to 38.1 % (previous year: 36.5 %) despite increasing administrative costs, which were attributable in particular to modernisation efforts and regulatory measures, such as KfW's mandatory application of the German Banking Act *(Kreditwesengesetz – "KWG")*. KfW sustainably strengthened its capital basis due to its good earnings position, with a profit for the year of EUR 1,331 million.

Total assets rose to EUR 493.2 billion. This was due among other reasons to the appreciation of the US dollar in comparison with the previous year.

Business performance in 2015 was largely characterised by the following developments:

A. High demand for KfW products

2015 was a very successful year for KfW, with a promotional commitment volume of EUR 67.0 billion (previous year: EUR 62.9 billion) and an environmental protection promotion ratio of 37 % (planned: 36 %). Demand in Germany increased by EUR 2.9 billion from EUR 47.6 billion to EUR 50.5 billion. The development of commitments was buoyed in particular by strong demand in the areas of **start-ups** (EUR 3.7 billion) and **environmental protection** (EUR 9.3 billion), as well as in the key promotional area of **housing** (EUR 16.5 billion). The measures to implement the "Juncker Plan" provided a boost of EUR 1.5 billion to the key promotional area for young entrepreneurs, start-ups, and innovative companies. Innovation financing is considerably strengthened by the new equity finance strategy. KfW will be participating in German and European venture capital funds in the next few years via the new **ERP Venture Capital Fund Investments**. At EUR 1.1 billion, the key promotional area of environmental protection recorded a significant increase as a result of the market's very positive reception of the improved energy efficiency programme. The biggest increase was seen in the key promotional area of housing at EUR 2.2 billion, due to strong economic activity in the construction of new homes as housing in urban areas becomes scarcer. The special facility "refugee accommodation" was a particular growth driver in infrastructure financing with a promotional business volume of EUR 5.0 billion. **Capital markets'** promotional business volume remained stable at EUR 1.1 billion.
Commitments in **International financing** of EUR 15.4 billion exceeded the prior year's figure of EUR 14.0 billion, with the Maritime industries segment being a principal contributor. Business area KfW Development Bank maintained its high level of new commitments. Around EUR 6.7 billion was earmarked on behalf of the Federal Government last year for development programmes around the world. This is KfW Development Bank's second highest promotional business volume after its 2014 record year of EUR 7.4 billion. It made a significant portion of new commitments (EUR 1.0 billion) to the crisis-ridden Africa/ Middle East region.

In a volatile market environment, KfW raised EUR 62.6 billion on the international capital markets in 2015 to **fund** its promotional business, compared to EUR 57.4 billion the previous year.

B. Strong operating result

The operating result before valuation and before promotional activity for financial year 2015 stood at EUR 1,767 million, which is slightly above the previous year's level of EUR 1,700 million. The encouraging operating result is largely due to non-recurring effects in net interest income. High investments in KfW's modernisation measures, digitalisation of the promotional business and expenses related to KfW's mandatory application of the German Banking Act, which were particularly reflected in Non-personnel expenses, had the opposite effect.

C. Risk provisions for lending business almost break even

The charges from depreciation, amortisation and impairments of receivables were slightly overcompensated by non-recurring effects from income from recoveries of loans written off, resulting primarily from exposures in Export and project finance, enabling KfW to post a positive risk provisioning result of EUR 4 million following a negative impact on earnings of EUR 363 million in financial year 2014.

D. Stable result in the securities and equity investment portfolios

The capital markets were under the influence of US and European central bank policy in 2015. The securities portfolio made a positive contribution to earnings of EUR 28 million, primarily from realised gains from securities disposals, which reflects the overall subdued development on the financial markets. A nearly break-even equity investment result was recorded in 2015.

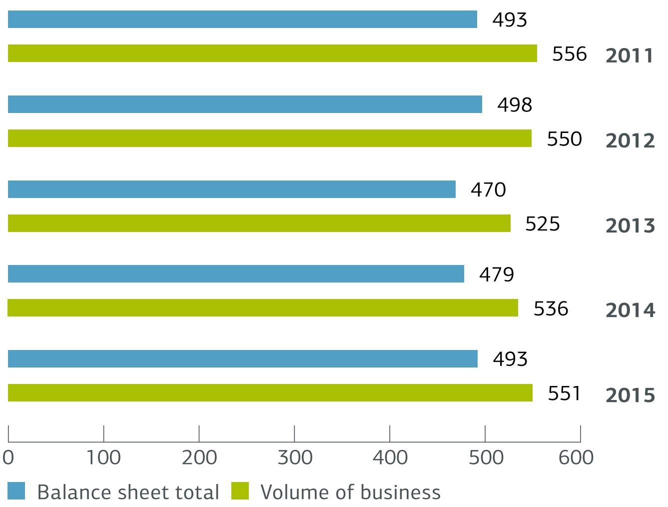
E. Promotional activity lower than expected
KfW's domestic promotional activity, which had a negative impact on KfW Group's earnings position, decreased again in financial year 2015, to EUR 345 million (previous year: EUR 364 million), which was below projections.

The key components of the promotional activity are interest rate reductions, which reached a volume of EUR 304 million (previous year: EUR 345 million). This decline was primarily due to the lower demand for subsidised promotional loans and the decreased scope for reductions in the low interest rate environment.

Development of net assets, financial and earnings position

KfW's volume of business was EUR 551.3 billion compared with EUR 536.3 billion in the previous year. This increase of EUR 14.0 billion resulted almost completely from on-balance sheet business, which rose from EUR 479.2 billion to EUR 493.2 billion.

Balance sheet total and volume of business
EUR in billions



Volume of receivables

The volume of receivables (loans and advances to banks and customers, including irrevocable loan commitments, loans held in trust and guarantees) rose from EUR 472.0 billion to EUR 483.3 billion.
The increase is largely based on the development of loans and advances to customers in the money market area; overnight loans rose by EUR 8.8 billion. Moreover, loans to promote developing countries rose by EUR 1.6 billion, and Export and project finance by EUR 0.9 billion.

Loans held in trust, which primarily comprised loans to promote developing countries financed by budget funds provided by the Federal Republic of Germany, decreased slightly from EUR 14.1 billion to EUR 13.1 billion.

Guarantees, which are mainly related to KfW's securitisation activities, declined by 29% to EUR 2.3 billion.
The increase in irrevocable loan commitments of EUR 2.0 billion to EUR 55.8 billion results primarily from Export and project finance.

Funding

In the year under review, KfW funded its business predominantly by issuing bonds in the capital market. KfW raised funds in the amount of EUR 62.6 billion in 2015 (previous year: EUR 57.4 billion).
Bonds issued increased by EUR 10.1 billion year-on-year and totalled EUR 412.3 billion as of 31 December 2015. Fluctuation in foreign exchange rates, particularly in that of the US dollar, impacted portfolio development as did new issues and maturities. Bonds issued accounted for 91.9% of borrowed funds, unchanged from the previous year. They therefore remain KfW's most important source of funding. In 2015, KfW funding denominated in US dollars comprised a greater share of total funding than funding denominated in the euro, KfW's domestic currency.

The US dollar has now become KfW's most important funding currency. In 2015, additional Green Bonds were issued with first-time offerings in Australian dollars, pounds sterling and Swedish kronor, besides US dollars and euros. Funds in the amount of the issue proceeds of the Green Bonds placed in 2015 (net proceeds: EUR 3.7 billion) were utilised to fund projects under the KfW Renewable Energy Programme – Standard.

The share of funds from banks and customers (excluding federal budget funds) remains unchanged from the previous year at 7% of borrowed funds. This includes cash collateral received primarily to reduce counterparty risk from the derivatives business in the amount of EUR 21.6 billion. The funds provided from

the federal budget decreased and amount to 1 % of borrowed funds, primarily as a result of the scheduled repayment of liabilities from the transfer of the ERP Special Fund.
In 2015, KfW and the ERP Special Fund renegotiated the further use of the subordinated loan granted as part of the restructuring of the ERP economic promotion programme in 2007. The agreement is to convert EUR 1.3 billion to equity by inclusion in the KfW capital reserve, to repay EUR 0.6 billion and to cancel a repayment in the amount of EUR 0.1 billion, in view of the reduced eligibility of this loan as Tier 2 capital. The period during which capital is tied up for the remaining tranche in the amount of EUR 0.3 billion ends on 31 December 2027.

	31.12.2015 EUR in millions	31.12.2014 EUR in millions	Change EUR in millions	Change in %
Federal Republic of Germany				
– ERP Special Fund	568	173	395	228
– Federal budget	2,155	2,724	–569	–21
	2,723	**2,897**	**–174**	**–6**
Other lenders	5,993	6,373	–380	–6
Liabilities to customers	**8,716**	**9,270**	**–554**	**–6**
Liabilities to banks	**27,322**	**22,037**	**5,285**	**24**
Bonds issued	79,856	94,599	–14,743	–16
Bearer securities (incl. Commercial Paper)	328,635	303,628	25,007	8
Accrued interest	3,817	4,029	–212	–5
Bonds and notes	**412,308**	**402,256**	**10,052**	**2**
Subordinated liabilities	**300**	**2,247**	**–1,947**	**–87**
Total	**448,646**	**435,810**	**12,836**	**3**

Own funds

The fund for general banking risks was increased by EUR 0.1 billion and stood at EUR 0.6 billion as of 31 December 2015. The entire profit of EUR 1,331 million was allocated to retained earnings.

KfW's own funds thus amounted to EUR 22.5 billion as of 31 December 2015, 13.5 % up on the previous year. This increase was largely due to the net income allocated to retained earnings and the conversion of the ERP subordinated loan of EUR 1.3 billion.

	31.12.2015 EUR in millions	31.12.2014 EUR in millions	Change EUR in millions
Subscribed capital	3,750	3,750	0
Uncalled outstanding contributions	–450	–450	0
Capital reserves	8,447	7,197	1,250
Promotional reserves of the ERP Special Fund	*7,150*	*5,900*	*1,250*
Reserves from the ERP Special Fund	1,191	1,191	0
Retained earnings			
a) Statutory reserve under Article 10 (2) KfW Law	1,875	1,875	0
b) Special reserve under Article 10 (3) KfW Law	7,022	5,690	1,331
c) Statutory reserve under Section 17 (4) D-Mark Balance Sheet Act[1]	48	48	0
Net retained profits/Net accumulated losses	0	0	0
Fund for general bank risks under Section 340g HGB	600	500	100
Total	**22,482**	**19,801**	**2,681**

[1] To be adjusted by the special loss account shown on the assets side in accordance with Section 17 (4) of the D-Mark Balance Sheet Act (EUR 26 million)

The regulatory total capital ratio was 18.4 % (previous year: 15.1 %), and the tier 1 capital ratio was 18.3 % (previous year: 14.1 %). Effective 2014, the determination of ratios is based on IFRS group figures.

Changes in other significant balance sheet items

Total bonds and other fixed-income securities declined by EUR 4.6 billion to EUR 38.1 billion. The decline resulted largely from the resale of own bonds held for price management purposes. KfW reported the amount held at EUR 9.7 billion after EUR 15.3 billion the previous year. This was equivalent to 3% of bonds issued.
Holdings of securities of other issuers, which make up 74% of all bonds and other fixed-income securities held, are slightly above the previous year's level at a total of EUR 28.4 billion. Of the securities from other issuers, 82% is eligible as collateral for funding operations with the European Central Bank ("ECB"). In addition to the Treasury securities portfolios, KfW holds asset backed securities ("ABS") carried at EUR 4.2 billion, (previous year: EUR 3.5 billion), related to its securitisation and SME finance activities. Potential risks are sufficiently addressed by appropriate risk provisioning.

The value of shares in affiliated companies amounted to EUR 3.2 billion and rose slightly by EUR 0.1 billion in comparison with the previous year.

The Other assets item includes, in particular, the currency adjustment item from foreign currency derivatives in the amount of EUR 18.6 billion as well as the receivable of EUR 0.6 billion from the Federal Agency for Special Tasks Associated with Unification *(Bundesanstalt für vereinigungsbedingte Sonderaufgaben – "BvS")*, due to the transfer of the rights and obligations of the State Insurance Company of the GDR in liquidation ("SinA") to KfW as of 1 January 2008. However, BvS remains the beneficial owner of the SinA obligations. This receivable is offset by actuarial provisions in the same amount.

The primary component of Deferred charges are the differences between the repayment amount and the lower issuing amount in the context of borrowed funds (discounts and placing commissions) and accrued upfront payments for derivative financial instruments. The item Deferred income includes in particular discounts from lending business and accrued upfront payments for derivative financial instruments deferred over the loan life.

Provisions rose slightly by EUR 0.1 billion to EUR 2.2 billion. The total amount includes provisions for pensions and similar obligations (EUR 1.1 billion) and other provisions (EUR 1.1 billion). Other provisions include in particular the actuarial provisions relating to SinA, the provision for variable compensation components, the provision for future interest charges related to the transfer of the ERP Special Fund, the provisions for credit risks and provisions relating to the present value approach applied to interest rate reductions.

Earnings position

KfW's operating result before valuation and promotional activity was EUR 1,767 million, which was marginally higher (EUR 67 million) than the previous year's figure of EUR 1,700 million.
Net interest income (before promotional activity), which still remains KfW's most important source of income, rose slightly in 2015 to EUR 2,356 million compared to the previous year's figure of EUR 2,293 million.
The slight increase resulted from positive non-recurring effects from the disposal of individual combinations of hedged items and hedging instruments, in addition to higher interest margins in Export and project finance and favourable funding opportunities for KfW.

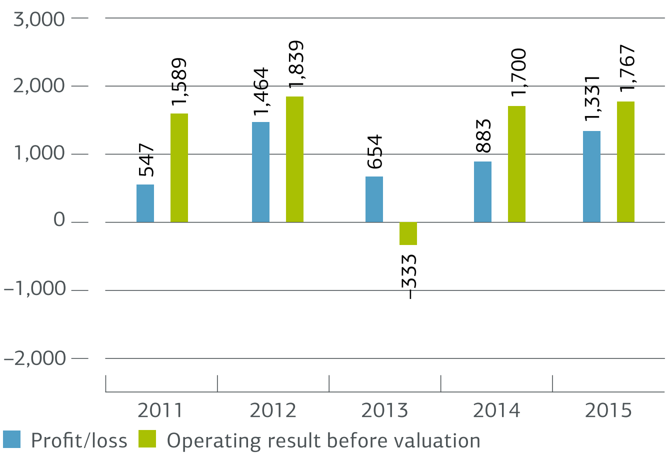
The decline in Net commission income (before promotional activity) by EUR 73 million to EUR 190 million was largely due to the absence of the non-recurring effects that occurred in 2014 in connection with the renegotiation of collateral agreements. Income generated from managing Financial Cooperation on behalf of the German Federal Government due to additional income from a new remuneration agreement moved in the opposite direction.

Administrative expenses (before promotional activity) increased by EUR 39 million to EUR 971 million, caused by higher expenses for wages and salaries, resulting from collective wage increases and a larger number of employees. Higher Non-personnel expenses were largely due to major investments in KfW's modernisation. These investments were primarily for the implementation of supervisory requirements and various major projects to modernise the IT environment. This extensive project portfolio is also expected to lead to a rise in Administrative expenses in the future.

Net other operating income was marked by a one-off repayment waiver for the ERP subordinated loan, in the amount of EUR 100 million, to cover future funding expenses from the ERP Venture Capital Fund Investments programme. This was offset by expenses of EUR 23 million from a donation to KfW Stiftung, a foundation which addresses the major social challenges of our time: globalisation, environmental and climate protection and demographic change.

Operating result before valuation and before promotional activity[1], and profit/loss for the year

EUR in millions



[1] From financial year 2013

The positive valuation result of EUR 30 million (previous year: EUR 23 million) was primarily due to realised gains from the sale of securities and the reversal of provisions for latent risks. Income generated from the disposal of equity investments almost balanced out against valuation-related charges. There are negative differences to market values of EUR 17 million (previous year: EUR 0 million) for securities in fixed assets not valued at the lower of cost or fair value.

All in all, risk provisioning resulted in a positive effect on the earnings position of EUR 4 million (previous year: negative effect of EUR 363 million). Net additions to specific valuation allowances, particularly from the business sector Export and project finance, were offset by income from the successful restructuring of older receivables. There was an increase in specific valuation allowances and specific provisions for lending business from EUR 594 million to EUR 620 million. Non-performing loans in the amount of EUR 181 million were written off in financial year 2015 (previous year: EUR 166 million).

Expected losses were covered by specific and general valuation allowances.

The promotional activity KfW performed in the Domestic promotional business which has a negative impact on KfW Group's earnings fell below both the prior year's level and projections to EUR 345 million in 2015 (2014: EUR 364 million). The key component of KfW's promotional activity comprises interest rate reductions of EUR 304 million. KfW grants these during the first fixed interest rate period in addition to passing on its own favourable funding conditions.

The fund for general banking risks was increased by EUR 100 million in financial year 2015, to EUR 0.6 billion.

Financial year 2015 closed with profit for the period of EUR 1,331 million (previous year: EUR 883 million), which benefited from various positive non-recurring effects and was fully allocated to Retained earnings.

Events after the end of the financial year

No events of particular significance for the assessment of net assets, financial position and results of operations of KfW occurred after the end of financial year 2015.

Sustainability report

Sustainability as a strategic guiding principle

KfW Group's fundamental mandate is promotion. In addition to the principle of subsidiarity, this also involves pursuing the objectives of sustainable development, which means that business und sustainability strategies are closely intertwined. KfW's sustainability principles constitute the central reference for the responsible structuring of financing and business processes across all business sectors and subsidiaries.

In line with its "Responsible Banking" motto, KfW focuses its promotional activities primarily on the socially and economically important megatrends of "climate change and the environment", "globalisation and technical progress" and "demographic change". In 2015 it provided a total promotional business volume of EUR 79.3 billion. As regards the "climate change and the environment" megatrend, KfW finances, for example, measures to support renewable energy, improve energy efficiency and prevent or reduce environmental pollution. This comprised a total of EUR 29.5 billion or 37 % of all new commitments, meaning that the strategic target set in the sustainability principles of focusing around one third of total new commitment volume on the key area of climate change and environmental protection was met again in 2015. Total new commitment volume for the "globalisation and technical progress" megatrend amounted to EUR 16.2 billion and for "demographic change" to EUR 11.5 billion. KfW also focuses on "non-trend-based promotional issues" that play an important role for KfW but are not related to any of the three megatrends, such as combating poverty in developing countries (a total of EUR 22.1 billion).

Targeted promotional activities are one side of the coin. On the other side, a responsible bank must also consistently ensure that its financing does not create any untenable damage or risks to society and the environment. KfW's sustainability principles constitute the central reference for responsible assessment of the environmental and social impact of new projects across all business sectors and subsidiaries.

However, a bank committed to responsibility must also ensure sustainable business processes are in place. This begins with the sustainability management system itself and extends to the responsible treatment of employees. It also touches on the issue of its own energy and resourcesconsumption and, last but not least, demonstrating responsible behaviour in the capital market.

Sustainability ratings serve to assess companies overall in terms of their sustainability performance, which is rated on the basis of environmental, social and governance aspects. KfW regularly ranks among the top banks in international sector reports by three renowned sustainability rating agencies (as of 31 December 2015). Sustainalytics awarded KfW 83 out of a maximum of 100 possible points, thus ranking it fifth out of 418 banks worldwide. For another year in a row, Oekom research gave the bank a "prime" rating in the group of financial institutions with the highest ratings worldwide: KfW earned a B– rating (on a scale of D– to A+). KfW ranked second overall in imug's sustainability rating of 122 national and international issuers of bank bonds.

Support for refugee aid programmes in Germany

In reaction to the influx of refugees, KfW is supporting municipalities in creating initial accommodation for refugees. A total volume of EUR 1.0 billion in interest-free special promotional loans was offered to municipalities in 2015, with the aim of creating initial accommodation for up to 100,000 people. KfW topped up this support most recently in January 2016 with an additional EUR 500 million.

COP21 and the Green Climate Fund

In informal talks at the United Nations Climate Change Conference in Paris (COP21), KfW along with 25 leading public and private financial institutions from around the world signed on to a set of common Principles for "Mainstreaming Climate Action Within Financial Institutions". In signing on to these voluntary principles, the institutions have pledged to continue integrating climate considerations into their financing and advisory activities. The principles are aimed at strengthening collective efforts to combat climate change.

At the beginning of 2015, KfW was accredited as one of the first implementing entities of the Green Climate Fund (GCF) and will also be carrying out one of the first projects in Bangladesh. The climate adaptation project with a total volume of USD 80 million – of which KfW provided USD 15 million from Federal Ministry for Economic Cooperation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung – "BMZ") funds – will help to better protect some 85,000 coastal residents from storms and floods. In three of the country's poorest districts, 45 new cyclone protection shelters are being erected, 20 more refurbished and 80 kilometres of storm-resistant access roads built.

KfW important partner in financing the energy transition

KfW provided a total of EUR 21 billion as part of its domestic promotional business for climate and environmental protection in 2015. This included funding investments to boost energy efficiency with a commitment volume of EUR 14.9 billion and loans totalling EUR 5 billion for the utilisation of renewable energy. Regular evaluations of promotional programmes are evidence of the key contribution that KfW makes year after year to achieving the Federal Government's energy transition objectives. For example, the investments co-financed by KfW in renewable energy and energy efficiency in Germany in 2015 accounted for around 18 % of the annual emissions reduction required for the Federal Government to achieve its greenhouse gas reduction target by 2020.

Retrofitting and eco-shipping

In the Maritime Industries sector department, KfW IPEX-Bank supports more efficient and environmentally friendly maritime shipping by financing retrofittingmeasures. In retrofits, modifications are undertaken to the ship engine, bow or propeller, for example, to improve energy efficiency. Embracing the concept of eco-shipping, KfW IPEX-Bank continues to attach great importance to the energy efficiency of the ships that it finances, employing an assessment method jointly developed with Germanischer Lloyd. This assessment enables the bank to take the energy efficiency of a vessel into account as an additional criterion when making its financing decision and to favour energy-efficient ships over their conventional counterparts. This benefits the environment and also makes economic sense because the environmental aspects also increasingly affect the likelihood of chartering and thus also the risk of default.

Green bond portfolio

KfW supports other green bond issuers in financing their sustainable environmental and climate protection projects by investing in them for its own green bond portfolio, which was launched in 2015. KfW had acquired EUR 280 million in these securities as of the end of 2015. It also plays a role in the further development of the growing market through initiatives to create guidelines for green bond issues and uniform reporting.

Environmental and social impact analysis

To avoid, and where possible reduce or offset, potential adverse effects and risks to society and the environment, KfW Group conducts an environmental and social impact analysis (ESIA) on planned support and financing in developing and emerging market countries as well as in export and project financing as a standard practice. Compliance with both relevant national law and KfW's assessment criteria is prerequisite to obtain financing. This practice is applied on the basis of internationally recognised benchmarks, including those established by the EU, the World Bank Group and the International Labour Organisation (ILO).

Protection of human rights is an integral part of the ESIA. KfW ensures with regard to all transactions that the local population where project partners or companies receive financing is informed and involved in the planning and approval process. Over 70 technical, environmental and social experts within the group assess whether and to what extent projects under consideration for financing could have adverse effects on or pose risks to society and the environment and what extra steps should be taken to protect the people and environment affected by these projects.

Complaints management

The public and those affected should have the possibility to voice targeted criticism of KfW Group's projects. In summer 2015, KfW IPEX-Bank established a simplified, publicly accessible internet mechanism for dealing with complaints on environmental and social matters. Individuals or organisations that experience adverse effects from projects co-financed by the bank – for example, if they are forced to relocate or feel their interests were not sufficiently taken into account in the approval process – can submit complaints. KfW Development Bank's existing complaints procedure was also reviewed and, in January 2016, a separate page was added on the website for this purpose, along with an online complaint form. By establishing this transparent and publicly accessible mechanism in accordance with international standards, KfW hopes to shorten response times further and consistently tap the potential to make improvements.

Further development of the sustainability management system

KfW's sustainability principles are put into practice via a management system that defines responsibilities and procedures. KfW's Chief Executive Officer (since November 2014 also in charge of environmental Issues) bears overall responsibility for KfW's sustainability strategy and communications. He, along with the responsible Executive Board members and the management of DEG and KfW IPEX-Bank, ensures that sustainability in all its many facets is made a standard part of operations. The CEO receives support to this end from Central Sustainability Management (CSM) headed by the Group Officer Environment and Sustainability. Staffing for KfW's CSM increased again in autumn 2014 due to constantly increasing requirements. CSM is the core of a network consisting of 15 sustainability officers from all relevant organisational entities as well as four site representatives for in-house environmental protection at all KfW Group locations. CSM's primary duties include the further development of KfW's sustainability commitment, for example as part of the forthcoming review of the sustainability principles, as well as the communication with stakeholders, including the NGOs.

The men and women on our staff

A new KfW equal opportunities plan Gender Balance Plan came into effect as of 1 January 2016. One key aim is to further increase the proportion of women in management and higher professional positions in the departments. Besides promoting cultural change, the objective of having balanced teams of men and women at all levels is ultimately to improve the bank's performance because they are better at finding solutions and make better decisions. The Gender Balance programme also aims to link the work organisation and personnel development with targeted efforts to shape corporate culture. As one of Germany's first family-friendly companies, KfW was duly certified by the non-profit Hertie Foundation as part of that institution's "work and family audit" as early as in 2001. In 2015, Hertie reviewed the status of the agreed objectives and measures for its interim report and rated them highly again.

KfW has employed and supported people with severe disabilities for many years. The Executive Board reinforced this commitment by signing an inclusion agreement in November 2015, agreeing goals for continued work with the representatives for employees with severe disabilities and the General Staff Council. The main aim of the inclusion agreement is to make a greater effort in creating new, long-term employment for severely disabled individuals and to support their professional development at KfW through targeted advancement and by balancing out the disadvantages resulting from disability.

KfW's numerous activities for and with their staff also received external recognition. In a major employer ranking in the year under review, KfW rated highest in the "Young Professionals" target group and bucked the overall trend in the financial services sector by further improving in the "Graduates" category.

In-house environmental protection and CO_2 emissions

The 2015-2017 Sustainability Programme includes all of KfW Group's newly planned sustainability measures, which target among other things reducing energy and resource consumption in the banking business. This involved a new combined heat and power unit being commissioned in Berlin in March 2015 that is around 10% more energy-efficient. Refurbishment of the underground car park below KfW's Südarkade building was completed at the end of the year. The use of the LED lighting now installed will save around 20% in electricity compared to conventional lighting systems. December 2015 saw preparations commence at the Frankfurt offices for implementation of a more efficient comprehensive energy supply system. Statutory energy audits were performed at the Berlin, Bonn, Frankfurt and Cologne locations by the 5 December 2015 deadline.

The internal "fleet environmental protection model" was conceived in the second half of 2015 for KfW management with the aim of sustainably reducing the carbon emissions of the managers' company cars. Implementation began at the turn of 2015/2016. A clear trend towards cars with lower carbon emissions can already be noted from current orders placed for vehicles. The "BahnCard 100" for Deutsche Bahn rail travel has also been very well received as an alternative to using cars. The number of hybrid/electric cars rose again in comparison with the previous year and generated positive user feedback.

KfW measures and reports its CO_2 emissions using the international Greenhouse Gas Protocol (GHG Protocol) standard. Emissions in 2014 fell slightly to 16,257 tonnes (2013: 16,592 tonnes). The bank reduced emissions from both direct energy consumption (Scope 1) and indirect (Scope 2) primarily due to the mild weather and a carbon-optimised fleet of courier and administrative vehicles. The further rise in group-wide travel-related carbon emissions was largely a result of the increase in transcontinental flights as well as emissions from events held with third-parties in KfW buildings (Scope 3).

Portfolio management and green bond activities

KfW has been an active member of the United Nations Principles for Responsible Investment (PRI) initiative since 2006 and, as a bank committed to responsibility, considers itself obligated to pursue sustainable investment. In addition to sustainably managing its own liquidity portfolio measured on the basis of environmental, social and governance (ESG) criteria, KfW has maintained dialogue with issuers on the matter of responsible behaviour on the capital market for many years. In 2015, it received the Institutional Investor Germany Award for the "Best ESG Programme" for its liquidity portfolio's sustainable investment approach.

In the area of green bonds, whose issue proceeds are directly linked to funding in the area of climate and environmental protection, KfW actively pursues a holistic approach. As an issuer, it offers global investors green bonds with top-notch financial ratings. In 2015, "Green Bonds – Made by KfW" were issued in an amount of EUR 3.7 billion in euros and US dollars and offered for the first time in Swedish kronor, Australian dollars and pounds sterling. For the bonds denominated in the last two currencies, KfW was recognised with the Kangaroo Supranational, Sovereign and Agency Bond Deal of the Year *(KangaNews)* and the Socially Responsible Investment Bond of the Year *(Global Capital).*

Sustainability report and stakeholder dialogue

The 2015 KfW Sustainability Report was published in December 2015 in line with the "comprehensive" option of the current Global Reporting Initiative (GRI) G4 Guidelines. Climate and environmental protection was a key aspect of the report. KfW determined the material sustainability issues for its business activities by means of a materiality analysis and then assigned these material issues to the GRI aspects to be reported. KfW also signed the declaration of conformity to the German Sustainability Code *(Deutscher Nachhaltigkeitskodex – "DNK")* in preparing the sustainability report for 2015.

KfW invited experts and other motivators to discuss sustainability in preparing for publication of its sustainability report and to further develop its sustainability strategy. Representatives of important stakeholder groups voiced their expectations to KfW at a round table meeting. One conclusion drawn by this meeting was that KfW always needs to be one step ahead of statutory requirements and market standards in order to act as a driver of sustainable development.

Risk report

This risk report corresponds in structure, scope and content to the group risk report published in the group management report. As risk management and risk controlling are focused on KfW Group, a risk report is not prepared at individual institution level.

Current developments

After moderate and disappointing growth in 2015, the global economy is not expected to gain momentum in 2016 either and is forecasted to remain around the same level as the previous year. Downside risks to the economy in emerging market countries prevail, while most industrialised countries appear poised for a moderate recovery. Economic growth in the United States is expected to remain stable in 2016. Robust private consumption buoyed by positive labour market trends and rising real income remain the key driving forces in this respect. Further appreciation of the US dollar as well as quicker moves to tighten monetary policy, however, pose risks to US industry. Although Japan's short-term prospects have improved slightly, economic momentum will remain at a low level and is unlikely to be sustainable. The modest economic recovery in the euro area is likely to continue under accommodative monetary policy in tandem with neutral fiscal policy. This recovery could secure the initial success attained in reducing unemployment as well as private and public debt. Political developments are expected to play an important role in the European Union ("EU") again in 2016; the United Kingdom's potential exit from the EU, migration and security policy challenges as well as numerous government and policy changes are likely to have an impact on economic growth. Emerging market countries overall experienced a considerable slowdown in growth in 2015. Commodity-exporting countries in particular suffered significant declines in growth as well as currency depreciation. A general reversal of this trend, triggered for example by rising oil prices, is not expected for 2016. Among the BRICS countries (Brazil, Russia, India, China and South Africa), only India may expect above-average growth in 2016, while Brazil and Russia are in a recession and South Africa is experiencing a period of extremely weak growth. China's economic transition will continue for the foreseeable future and deliver slightly lower growth rates. Misallocation of credit in China constitutes a considerable downside risk to this global outlook. If critical developments slow Chinese economic growth more than expected, it would have serious adverse consequences for the world economy. Geopolitical tensions, particularly in the Middle East, are creating further considerable uncertainty. Quicker tightening of US monetary policy could also cause high volatility in the financial markets.

In 2015, the performance of banks in the euro area remained mixed. While the banking sectors in Ireland and Spain have continued to recover, driven by improved economic parameters and stabilising real estate sectors, the quality of assets in Italy has deteriorated (with a rising share of non-performing loans in loan portfolios). In the European peripheral countries, the Greek financial sector again caused the greatest turmoil in 2015. As a result of the drawn-out agreement process between the new Greek government and its international creditors, Greek banks were forced, following drastic deposit outflows, to close for several weeks in the summer, and capital controls were imposed. The Swiss National Bank's removal of the Swiss franc's cap against the euro at the beginning of 2015 brought about serious upheaval. The massive appreciation of the franc caused the value of CHF-denominated loans outside Switzerland to soar, raising borrower costs and creating higher credit risks for banks in some eastern European countries, in particular. One such consequence is Poland's plan to force the conversion of foreign currency loans at the expense of the banks. This could result in a considerable burden on the Polish banking sector in 2016, which could be exacerbated by further government measures announced. The above-mentioned deterioration in economic parameters in critical emerging market countries resulted in lower credit ratings for important banks in these countries, such as Brazil. Russia's economy and banking market are suffering a lot from the recession and the Western sanctions, which is reflected in increased loan defaults and risk costs, decreased profits and lending, and increased central bank funding.

Implementation of the bail-in rules as of 1 January 2016 represents one of the key reforms for European banks. These rules permanently change the risk profile for bank bonds and will likely result in slight increases in funding costs. Rating agencies stopped including the probability of government bail-ins when rating the creditworthiness of various European banks in 2015. Given that the ECB will continue to pursue its expansionary monetary policy in 2016 and accordingly maintain the low interest rate environment with narrow margins, cost-cutting programmes at banks will continue to play an important role. The focus is particularly on banks with less efficient cost-income ratios in Germany, France and Italy, which can also be seen in the results from the latest EU-wide transparency exercise published by the European Banking Authority ("EBA") at the end of 2015. Banks active in ailing banking markets will continue to focus on reducing bad debt as a means of decreasing the share of non-performing loans in loan portfolios, particularly in Cyprus, Ireland, Italy, Greece and Portugal. Despite considerable improvement in European banks' capital adequacy, the new EBA/ECB stress test is expected to be a greater measure of each bank's resilience. The results will be published in the third quarter. It is expected that the supervisory authorities will use the results as a basis for determining individual capital requirements. Thus regulatory pressure on banks' capitalisation will remain high. However, even if there continues to be a need for capital, the focus of European banks in 2016 will likely be directed more towards generating Tier 2 capital and other loss-bearing liabilities in order to meet future requirements for the leverage ratio, Total Loss-Absorbing Capacity (TLAC) and the minimum requirement for eligible liabilities (MREL). The effects on the banking markets of political changes in the peripheral countries as well as the tensions between Russia and Ukraine and between Russia and Turkey are more difficult to calculate. The spotlight will remain on Austrian and French banks due to their greater exposure in these regions. In China, where debts have risen considerably in recent years, particularly in state-owned enterprises in the construction, real estate, mining and utilities sectors, risk costs for banks' loan portfolios will likely continue to increase.

The German and European economies were characterised by sideways movement in 2015. The business sector continues to stagnate; the positive impetus primarily stems from private households. A modest improvement is expected for 2016. Companies continue to benefit from favourable terms due to good credit availability and lending structures that are gradually being eased. The effects of the scandal involving the manipulation of exhaust emissions on Volkswagen but also on the European automotive industry as a whole cannot be estimated yet.

KfW Group has been affected by the aforementioned developments due to its international promotional mandate. The KfW portfolio recorded stable performance overall. All recognisable risks are measured using conservative standards and are taken into account in KfW Group's new business management through the systematic implementation of risk guidelines. The regularly performed calculations of risk-bearing capacity show that KfW Group can bear the risks assumed in the context of its mandate – even based on conservative stress scenarios. In 2015, as in previous years, KfW Group systematically refined the processes and instruments in its Risk Management and Controlling department, taking account of current banking regulations.

As a result of an amendment to the KfW Law in 2013 and the issuance of the "Regulation concerning key banking supervision standards under the German Banking Act to be declared applicable by analogy to KfW and supervision of compliance to these standards to be assigned to the German Federal Financial Supervisory Authority" (the "KfW Regulation"), the German legislature enacted an expanded application of the KWG to KfW. Going forward, KfW will be obliged to apply by analogy key bank regulatory standards, which also extend to the group management function. The German Federal Financial Supervisory Authority and the German Central Bank (Bundesbank) will be responsible for supervising compliance with the relevant applicable bank regulatory standards. The KfW Regulation provides for their entry into force in stages. The corporate governance rules have been binding since mid-2014, the other provisions since 1 January 2016.

Basic principles and objectives of risk management

KfW Group has a statutory promotional mandate, which provides the basis for its special position and institutional structure. Sustainable promotion is KfW Group's overarching purpose. In order to utilise available resources to best carry out KfW Group's promotional mandate, it is vital to measure and control incurred risks. As part of its risk management, KfW Group takes risks only to the extent that they appear manageable in the context of its current and anticipated earnings position and the development of the risks. KfW Group's risk/return management takes into account the special characteristics of a promotional bank, with adherence to supervisory requirements constituting a fundamental prerequisite to the group's business activities.

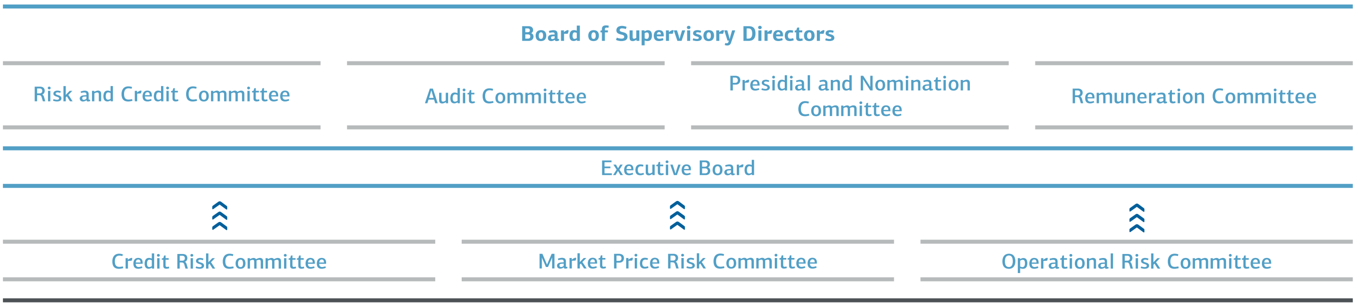
In order to solidify risk management and controlling competence within its organisation, KfW Group offers its employees training that includes a modular programme on risk topics. The training programme enables management and non-management staff throughout KfW Group to acquire basic knowledge or to deepen their specialised knowledge.

Organisation of risk management and monitoring

Risk management bodies and responsibilities

As part of its overall responsibility, KfW's Executive Board determines the group's risk policies. The Board of Supervisory Directors is informed at least quarterly of KfW Group's risk situation. The Presidial and Nomination Committee is responsible for dealing with legal and administrative matters as well as fundamental business and corporate policy issues. Moreover, in certain urgent cases, the committee has the authority to adopt resolutions in place of the Board of Supervisory Directors. The Chairman of the Board of Supervisory Directors decides whether an issue is urgent. The Risk and Credit Committee is primarily responsible for advising the Board of Supervisory Directors on the group's current and future overall risk tolerance and strategy, and supports it in monitoring implementation of the latter. It decides on loan approvals (including loans to members of management), operational level equity investments, funding and swap transactions, to the extent committee authorisation is required by the KfW Bylaws. The Audit Committee monitors, above all, the accounting process and the effectiveness of the risk management system and offers recommendations to the Board of Supervisory Directors concerning its approval of the consolidated financial statements. The Remuneration Committee monitors whether the structure of the remuneration system for the Executive Board and employees is appropriate. In accordance with applicable bank regulatory provisions, the Remuneration Committee is also responsible for monitoring whether the structure of the remuneration system for the heads of the Risk Controlling and Compliance functions and for any employees who have a significant impact on the group's overall risk profile is appropriate.

Risk management within KfW Group is exercised by closely interlinked decision-making bodies. At the top of the system is the Executive Board, which takes the key decisions on risk policy. There are three risk committees below the level of the Executive Board (Credit Risk Committee, Market Price Risk Committee and Operational Risk Committee) which prepare decisions for the Executive Board and also take their own decisions within their remits. The committees also perform KfW Group management functions, so representatives from subsidiaries KfW IPEX-Bank and DEG are included. Further working groups do the preliminary work for these committees. The middle and back office departments *(Marktfolge)* and Risk Controlling generally have a veto right in the committees; if a committee fails to reach a unanimous decision, the issue may be escalated to the Executive Board level.



Credit Risk Committee

The Credit Risk Committee is chaired by the Chief Risk Officer and meets once a week. The committee's other voting members are the Director of Risk Management and Controlling, attending members of the Executive Board and KfW IPEX-Bank's Chief Risk Officer (CRO). The Credit Risk Committee is supported by various working groups. The Country Rating Working Group serves as the central unit for assessing country risk. The Collateral Working Group ensures a uniform approach to all essential aspects of collateral acceptance and valuation, and collateral management processes. The Rating Systems Working Group is responsible for all essential aspects of credit risk measurement instruments. The Corporate Sector Risk Working Group analyses sector and product-related credit risks in the corporate segment. The weekly Credit Risk Committee meetings involve decisions on loans and credit lines, in particular. KfW IPEX-Bank's and DEG's commitments are also presented to the Credit Risk Committee. Additional extended meetings, held on a quarterly basis, are also attended by representatives of the business sectors and of DEG. Internal Auditing and Compliance have guest status. Reports about the development of regulatory requirements, e.g., the German Minimum Requirements for Risk Management *(Mindestanforderungen an das Risikomanagement – "MaRisk")* and KWG, their impact and the progress of implementation projects in KfW Group, are made at this quarterly meeting. The committee also approves major changes to existing risk principles and credit risk methods as well as new principles and methods and procedural rules for the working groups performing the groundwork. The committee also monitors KfW Group's loan portfolio, including country and sector risks.

Market Price Risk Committee

The Market Price Risk Committee is chaired by the Chief Risk Officer and meets once a month. The committee's other members include the Executive Board member responsible for capital markets business, and, among others, the directors of Financial Markets, Risk Management and Controlling, and Accounting. Internal Auditing and Compliance have guest status. The Chief Risk Officers of KfW IPEX-Bank and DEG, or their representatives, attend the meetings on a quarterly basis and as necessary. The Market Price Risk Committee discusses KfW Group's market price risk position and assesses the market price risk strategy on a monthly basis. The committee also monitors KfW Group's liquidity risk position and decides on all fundamental and methodological questions relating to the management of market price and liquidity risks as well as transfer pricing and the valuation model for commercial transactions. The committee prepares the final decision of the Executive Board regarding the interest rate risk strategy. The Market Price Risk Committee is supported by the Surveillance Committee, which discusses the valuation of securities and market developments as well as impairments of securities, and the Hedge Committee, which deals primarily with the earnings effects of IFRS hedge accounting and the further development thereof.

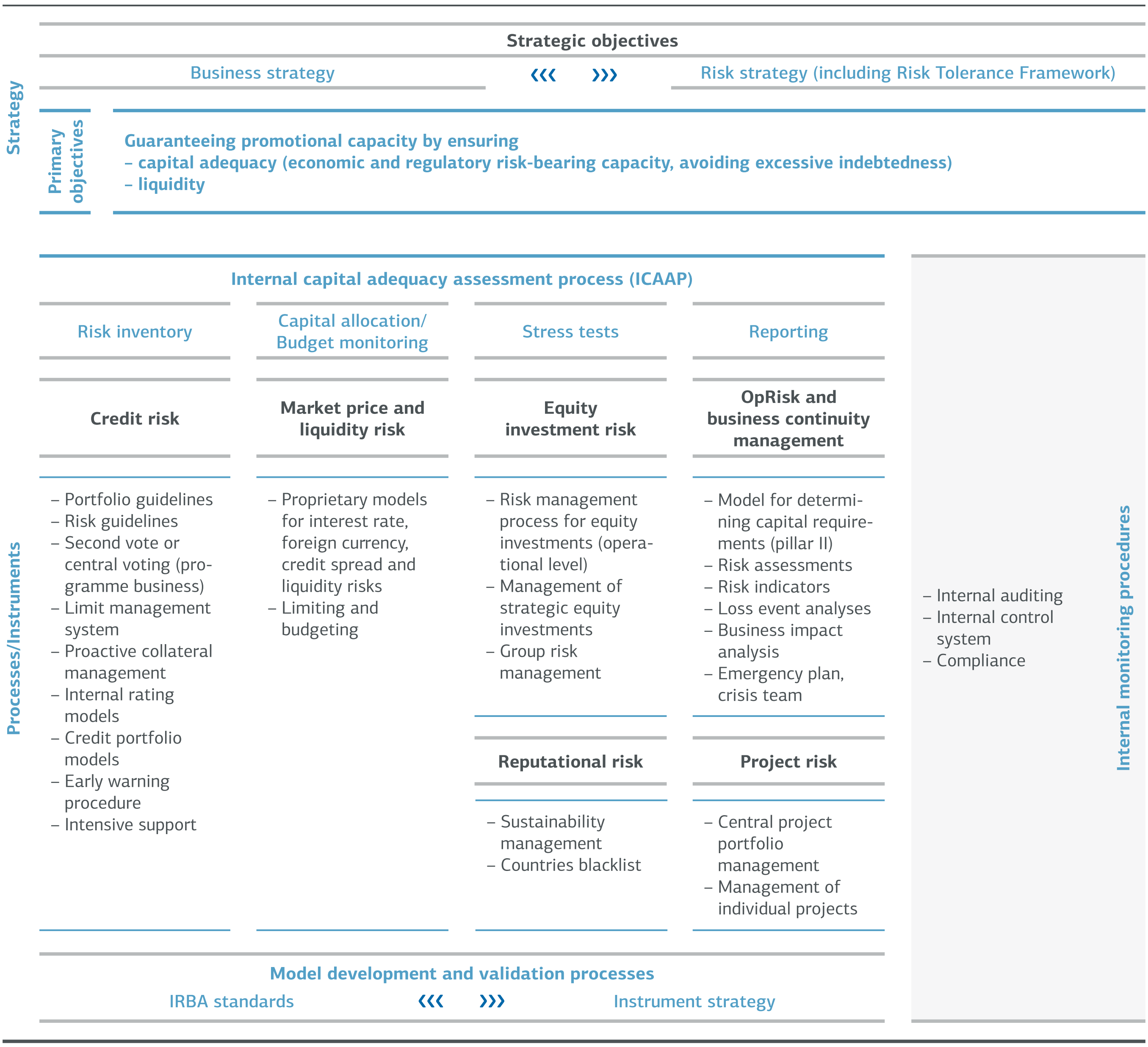
Operational Risk Committee

The Operational Risk Committee meets once a quarter and supports the Executive Board in the areas of operational risk and business continuity management. It comprises senior vice presidents (or represented by first vice presidents). It is chaired by the Director of Risk Management and Controlling. KfW IPEX-Bank and DEG are represented on the committee. Internal Auditing has guest status. The committee's tasks are to adopt resolutions and to approve risk principles, methods and instruments. In addition, the committee is responsible for managing operational risk ("OpRisk") and taking decisions regarding cross-functional group-wide measures. The committee also discusses any major or potential operational risk loss events and evaluates any group-wide action required. In the area of business continuity management, the committee establishes crisis-prevention and emergency-planning measures using the results of the annual business impact analysis. Monitoring is based on reports about planned or implemented emergency and crisis team tests and significant disruptions to business. All resolutions and recommendations by the Operational Risk Committee are presented to the Executive Board.

Additionally, the subsidiaries and organisational entities of KfW Group exercise their own control functions within the group-wide risk management system. In these entities, group-wide projects and working groups ensure a coordinated approach, for example, in the rollout of rating instruments to subsidiaries or in the management and valuation of collateral. The responsibility for developing and structuring risk management and risk control activities is located outside the market areas and lies in particular with the Risk Management and Controlling area.

Risk management approach of KfW Group

OVERVIEW



To ensure capital adequacy and liquidity in line with KfW Group's defined risk tolerance, Risk Management and Controlling formulates and regularly reviews the risk strategy of KfW Group taking into account its significant subsidiaries.

The orientation of KfW's risk strategy is in line with its business strategy and takes into account the regulatory requirements relating to KfW's business model. The risk strategy translates the group's long-term and strategic (risk) objectives into operational risk management requirements. This involves defining risk management objectives for core business activities and measures for achieving targets, as well as setting risk tolerance limits for managing KfW Group's material risks. To implement the risk strategy, a variety of instruments to control KfW Group's major risks are used, including risk management instruments for individual counterparties and portfolios. In order to determine its material risks, KfW Group undertakes a **risk inventory** at least once a year. The risk inventory identifies and defines types of risks relevant to KfW Group in a structured process and then subjects these risks to an evaluation of materiality. The materiality of a risk type depends primarily on the potential danger for KfW Group's net assets, earnings and liquidity. The key outcome of the risk inventory is an overall risk profile, which provides an overview of KfW Group's material and immaterial risk types. The 2015 inventory identified the material risks facing KfW Group to be credit, market price, liquidity, operational, equity investment, project and reputational risks. **Risk concentrations** within a risk type or across various risk types are taken into account in the risk inventory.

Risk reporting is in line with regulatory requirements (MaRisk). The Executive Board is informed about KfW Group's risk situation on a monthly basis. A risk report is issued quarterly to KfW Group's supervisory bodies. The respective bodies are informed on an ad hoc basis as required. The risk indicators and information systems used by the Risk Management and Controlling department are reviewed on an ongoing basis.

The methods and instruments for KfW Group-wide risk analysis and control are regularly validated and enhanced through further development. The focus is on models to measure, control and price both credit and market price risks. Validation and further development activities also take account of regulatory requirements.

The risk management approach is set out in KfW Group's risk manual. The risk manual stipulates the framework for the application of uniform procedures and rules and regulations to identify, measure, control and monitor risk. The rules and regulations laid out in the risk manual are binding for the entire KfW Group, accessible to all employees and continually updated. KfW Group-wide regulations are supplemented by rules specific to each business sector. See the following sections for details on other elements of KfW Group's risk management approach.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

KfW Group's internal capital adequacy assessment process is characterised by the fact that regulatory and economic requirements regarding risk-bearing capacity are equally important overarching objectives for KfW Group. Accordingly, all risk monitoring and management measures must ensure compliance with both an economic solvency target and minimum requirements for the regulatory capital ratios. This approach combines economically practicable capital management with the obligation to comply with regulatory capital requirements. As the basis for the close integration of these two perspectives, KfW Group takes a uniform definition of the resources available for risk coverage: regulatory capital in line with Articles 25-91 of Regulation (EU) No. 575/2013 (Capital Requirements Regulation – "CRR") is used as available financial resources for both views.

A further core feature of the capital adequacy assessment process is the proactive focus resulting from an additional forward-looking component. This focus evaluates the absorption potential of KfW Group's reserves – and thus also its ability to act – in the event of certain economic and stress scenarios. A traffic light system, established in this context with thresholds for regulatory and economic risk-bearing capacity, signals the required action in the event of critical developments as part of operational and strategic management.

KfW Group's risk-bearing capacity concept serves first and foremost to protect debt capital providers from losses and therefore adopts a liquidation approach in its basic form. However, the addition of a forward-looking component, which also guarantees compliance with regulatory capital requirements, expands the concept to include a going-concern view. KfW Group's risk-bearing concept thus includes elements of both basic types of risk-bearing capacity approaches.

Since the fourth quarter of 2015, the targets for ensuring risk-bearing capacity have been addressed via budgets based on risk-weighted assets at the level of each business sector/area. The allocated budgets are available to the business sectors/areas for backing old and new business for the various types of risk. Capital allocation is conducted as part of KfW Group's annual business sector planning. In addition to the requirements induced by business sector planning, this process also takes into account the risk objectives and the bank's risk tolerance, e.g. via traffic light limits. Budget compliance is checked on at least a quarterly basis and action taken if necessary. In addition, the reference values for economic capital requirements are determined at the KfW Group level for the business sectors/areas and their utilisation is also monitored on at least a quarterly basis. Moreover, economic capital budgets are set for different types of risk as their central control and limit variable, and monitored quarterly.

To avoid excessive debt, the leverage ratio is integrated into the capital adequacy assessment process as a further control variable. Similarly to risk-bearing capacity metrics, the leverage ratio is taken into account in additional forward-looking projections, and compliance with defined traffic light limits monitored on at least a quarterly basis.

In addition to KfW Group's risk-bearing capacity concept, the capital planning process monitors the medium-term development of capital adequacy. Reliance on scenario-based extrapolations of regulatory and economic risk-bearing capacity as well as the leverage ratio over a multi-year observation horizon enables the capital planning process to identify potential capital bottlenecks early in order to derive recommendations for action strengthening capital or reducing risk, as necessary. The process takes into account changes in strategic objectives, business activity and the economic environment. In addition to a base case, regulatory and economic risk-bearing capacity and the leverage ratio are also taken into account in a stress case. Capital planning is performed as part of the overall KfW Group-wide planning and strategy process.

The risk-bearing capacity concept is subject to annual review of its limits and restrictions. The results are used accordingly in the assessment of risk-bearing capacity.

Regulatory risk-bearing capacity

Key regulatory figures

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Total risk exposure in accordance with Art. 92 CRR	131,773	144,062
– Credit risk	*123,956*	*135,910*
– Market price risk	*1,266*	*1,093*
– Operational risk	*6,551*	*7,059*
Regulatory capital (available financial resources)	24,210	21,690
– Tier 1 capital	*24,090*	*20,343*
– Tier 2 capital	*120*	*1,347*
Tier 1 capital ratio	18.3 %	14.1 %
Total capital ratio	18.4 %	15.1 %

KfW Group will not be subject to the KWG and/or CRR regulatory capital requirements until 1 January 2016. For internal control purposes, however, it already voluntarily calculates the regulatory capital ratios based on the key legal requirements. In-house rating methods are used here for large sections of the loan portfolio to calculate the capital requirements (i. e. advanced internal ratings-based approach – "IRBA").

KfW Group's regulatory capital ratios improved significantly in comparison with 31 December 2014. As of year-end 2015, the total capital ratio taking into account consolidated comprehensive income was 18.4 % (year-end 2014: 15.1 %), and the Tier 1 capital ratio was 18.3 % (year-end 2014: 14.1 %). The main drivers of this positive development were the annual profit, which resulted in an increase in available financial resources, and the reduction in the capital requirement for the separate line item from macro hedge accounting as part of the transition from blanket coverage to risk-based modelling. The increase in the Tier 1 capital ratio was greater than the total capital ratio due to the partial conversion of the ERP subordinated loan (Tier 2 capital) into equity by inclusion in the capital reserve (Tier 1 capital). A moderate increase in the capital requirement for counterparty risks as well as the credit valuation adjustment (CVA) charge had a slightly offsetting effect on the capital ratios.

The figures stated are "analogous" IRBA values, which result from the extensive application of the internal rating procedures described above. However, KfW is currently still undergoing the IRBA approval process, which is why, as of 1 January 2016, ratios are being temporarily determined and reported to the supervisory authorities under the standardised approach for credit risk.

Economic risk-bearing capacity

To assess its economic risk-bearing capacity, KfW Group compares its economic capital requirement for potential losses from material quantifiable risks against its available financial resources. KfW Group bases its calculation of the economic capital requirement on a solvency target of 99.99 % and a time horizon of one year. The aggregation of the economic capital requirement across various types of risks is made through addition without taking account of diversification effects. The most significant risk type for KfW Group is **credit risk.** Credit risk is the risk of losses if business partners fail to meet their payment obligations to KfW Group at all, in due time or in full (default), or their credit ratings deteriorate (migration). Credit risk includes settlement risk involved in settling derivative transactions. The economic capital requirement for credit risk is quantified by the Risk Controlling department, largely with the help of statistical models. For counterparty risk, the loss potential is computed using a loan portfolio model and the risk measure of "credit value-at-risk". The difference between credit value-at-risk and expected loss is referred to as the economic capital requirement.

Migration risk is taken into account in the forward-looking component of the calculation of risk-bearing capacity, on the basis of scenarios. For settlement risks, the regulatory capital requirement is applied in calculating risk-bearing capacity if there are any open settlement exposures at the end of the month.

The group determines a current capital requirement for the **separate line item (SLI)** required in macro hedge accounting. The separate line item is required to be presented on the asset side of the IFRS statement of financial position to show the cumulative adjustments to the carrying amount of the hedged item. The capital resources are provided using individual credit risk parameters of the hedged transactions and are thus allocated accordingly at individual exposure level.

The economic capital requirement for **market price risk** is also calculated on the basis of the value-at-risk concept. Going beyond the regulatory requirements of pillar I on non-trading-book institutions, pillar II's economic analysis also takes account of interest rate risk in the banking book, credit spread risk for securities, and basis spread risk. An internal model is also used for foreign currency risk. The possible loss of present value or price is determined for each type of market price risk using a value-at-risk based on statistical models. Moreover, a capital buffer is maintained for interest rate and foreign currency risks. Ultimately, the economic capital requirement is defined as the sum of value-at-risk and an additional capital buffer.

The capital requirement for **operational risk** is calculated using an internal statistical model, which includes both internal and external loss data. An advanced model for determining the economic capital requirement for operational risks was implemented in 2015. This new model was designed based on regulatory requirements for advanced measurement approaches and includes risk-sensitive internal and external event data and risk scenarios. The capital requirement is calculated using diversification effects at the business sector level.

Project risks are also taken into account in the risk-bearing capacity concept. Both quantified individual risks from major projects and general assumptions about potential losses in the project portfolio are included in risk measurement.

KfW Group also includes **hidden burdens** *(stille Lasten)* for securities held as fixed assets, which are held directly as an economic capital requirement without including offsetting hidden reserves *(stille Reserven)*.

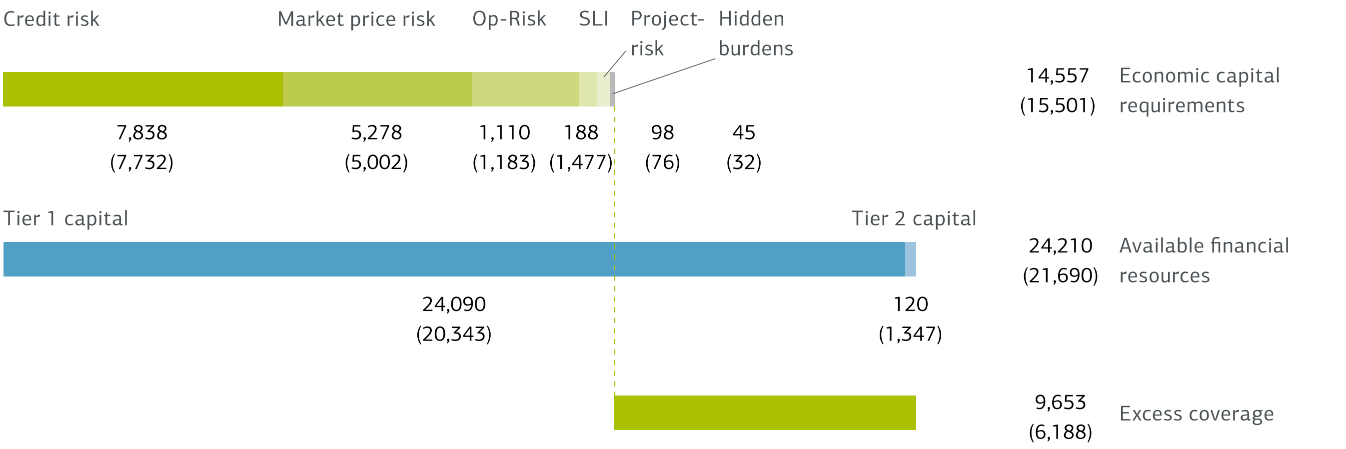
Using this method, the economic risk-bearing capacity as of 31 December 2015 satisfied a solvency level of 99.99%. The excess coverage of the available financial resources beyond the total capital requirement as of 31 December 2015 of EUR 9,653 million increased significantly compared to 31 December 2014 (EUR 6,188 million). This increase is largely due to the inclusion of the 2015 annual profit in the calculation of the available financial resources and to the reduction in the capital requirement for the separate line item due to the transition from blanket coverage to risk-based modelling. The increased capital requirement for credit risk is primarily due to the US dollar's appreciation as well as rising money market trading volume. As this is offset by the regular reparametrisation of correlations in the loan portfolio model, there is only a slight increase in the capital requirement. The increased capital requirement for market price risks is due to higher basis spread and currency risks. Hidden burdens and the capital requirement for project risk have also risen slightly. By contrast, the capital requirement for operational risk remains virtually unchanged.

KfW Group manages **liquidity risk** by regularly monitoring the appropriate internal key figures and various control processes in its banking operations. Internal calculations relating to the liquidity situation are based on projections of liquidity needs and total liquidity resources, which are both subjected to stress scenarios of differing severity.

Reputational risks are evaluated and managed on a qualitative basis. No capital backing is currently provided as part of calculating risk-bearing capacity.

KfW Group's risk measurement is based on state-of-the-art models used in banking practice. However, each model represents a simplification of a complex reality and builds on the assumption that risk parameters observed in the past can be considered representative of the future. Not all possible influential factors and their complex interactions can be identified and modelled for the risk development of a portfolio. This is one reason why KfW Group carries out stress tests with both the credit risk models and the market price risk models. KfW Group also continually works to refine its risk models and processes.

Economic risk-bearing capacity as of 31 December 2015
EUR in millions



In brackets: figures as of 31 December 2014

Stress and scenario calculations

To ensure a stronger early indicator function and proactive focus in its risk-bearing capacity concept, KfW Group monitors, on a quarterly basis, a forecast scenario (baseline scenario), a downturn scenario (slight economic slowdown) and a stress scenario (deep recession) as well as their respective effects on economic and regulatory risk-bearing capacity. This forward-looking perspective illustrates KfW Group's resilience and ability to act in the event of these scenarios and, accordingly, delivers direct input to management. Forecast and stress scenarios are also calculated for the leverage ratio.

The forecast scenario provides a preview of risk-bearing capacity at the relevant year-end and includes the projected business performance and comprehensive income, and other effects influencing risk-bearing capacity, such as foreseeable changes in the capital structure and methodological developments. The current forecast for 31 December 2016 shows almost constant excess coverage of available financial resources over the economic capital requirement compared with 31 December 2015.

In the downturn and stress scenarios, effects on earnings and changes in capital requirements are simulated for a twelve-month period assuming negative economic development scenarios of varying severity. The effects of a severe global recession emanating from the euro area are depicted in the stress scenario. In both scenarios, KfW Group currently assumes an overall increase in credit risk (counterparty and migration risks). In these scenarios, the EUR and USD interest rates and the USD exchange rate are forecast to develop in line with the economic situation, which means it is assumed that the euro will depreciate against the US dollar and that interest rates will decline overall. At the same time, it is assumed that increasing market uncertainties will lead to increased volatility in interest rates, currencies and credit spreads, as a result of which the economic capital requirement for the corresponding types of risk will rise. Losses from securities prices as well as from operational and project risk further reduce available financial resources in the stress scenario.

Overall, risk-bearing capacity at a solvency level of 99.99% for all three scenarios and the leverage ratio in the forecast and stress scenarios are at an adequate level.

Further stress tests are carried out in addition to the economic scenarios to examine the resilience of KfW Group's economic and regulatory risk-bearing capacity. Current potential macroeconomic dangers form the basis for the varying scenario stress tests. In 2015, they focused on scenarios with appreciation of the US dollar, consolidation pressure in the banking sector and problems in the emerging market countries with consequences for the export industry. The concentration and inverse stress tests show how concentration risks and other potential dangers materialising in unfavourable combinations could jeopardise KfW Group's business model.

Types of risk

COUNTERPARTY DEFAULT RISK

KfW Group faces counterparty risks[1] in the context of its promotional mandate. In domestic promotional lending business, the majority of ultimate borrower default risks are borne by the on-lending institutions. Due to the business model, this results in a large proportion of bank risks in the portfolio. Other main risks result from promotional activities in the area of start-up finance for SMEs and equity investments. Particularly in these segments of domestic promotion, KfW Group bears the risk stemming from ultimate borrowers. In addition, KfW Group faces risks in the business sectors Export and project finance as well as Promotion of developing and transition countries.

Debtor level	Sovereigns	Banks	Enterprises	Other
Rating procedure (Probability of default)	– Country rating	– Bank rating	– Corporate rating – SME rating	– Retail – Structured products – Start-up rating – Private equity investee/investor rating – Investment fund rating – Special financing – Self-employment rating
Business level	**Exposure at default**			
	Loss given default			
Portfolio level	**Credit portfolio model**			

Validation and further development processes

Counterparty default risk is measured by estimating the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). The product of the three aforementioned variables is the loss that can be expected, statistically, on average over many years. The expected loss is taken into account when determining risk-bearing capacity by deducting it from the available financial resources in accordance with the supervisory requirements of Article 158 of the CRR.

KfW Group uses internal rating procedures for the measurement of the probability of default for banks, corporations, small and medium-sized enterprises, private equity investors, investment funds, entrepreneurs, start-ups and countries. These procedures are based on scorecards[2] and follow a consistent uniform model. Simulation and cash flow-based rating procedures are used for significant parts of special financing and structured products. For securitisation transactions, tranche ratings are determined on the basis of the default pattern of the asset pool and the waterfall structure of the transactions. The rating procedures aim to predict the probability of default on a one-year basis. As a rule, the middle and back office departments are responsible for preparing ratings for risk-bearing business. Ratings are updated at least once annually, with the exception of business partners with whom only retail business is conducted.

The probability of default is mapped on a uniform master scale for the entire KfW Group, allowing comparison of ratings from different rating procedures and business sectors. The master scale consists of 20 distinct classes which are divided into four groups: investment grade, non-investment grade, watch list and default. The range of default probabilities and the average default probability are defined for each class of the master scale. There are operating procedures specifying the responsibilities, competencies and control mechanisms associated with each rating procedure. External ratings are mapped to KfW Group's master scale to ensure the comparability of internal ratings with ratings of external rating agencies. Periodic validation and continued development of the internal rating procedures ensure a rapid response to changes in overall conditions.

[1] Counterparty default risk is defined as the risk of financial loss that can occur if the borrower or counterparty fails to meet contractual payment obligations. Counterparty default risk also includes country risk, comprising transfer, conversion and political risks.

[2] A scorecard is a mathematical and statistical model and/or an expert knowledge-based model. The individual risk factors considered relevant for credit rating are converted into a score depending on their value and weighted for aggregation.

Exposure at default and valuation of collateral are heavily weighted when determining the severity of loss. Collateral has a risk-mitigating effect in calculating loss given default. In valuing acceptable collateral, the expected net revenue from collateral realisation in the case of loss, including haircuts, is determined. For tangible collateral, the haircuts are attributable, among other things, to devaluation resulting from depreciation, in addition to fluctuations in market prices and the costs of realisation. Depending on the availability of data, the various valuation procedures for individual types of collateral are based on internal and external historical data and on expert estimates. A risk principle for loan collateral regulates uniform management, valuation and recognition of collateral across KfW Group. In addition to net revenue from collateral realisation, the recovery rate for uncollateralised exposure amounts is also an important component in determining loss given default (LGD). All valuation parameters are regularly subject to validation.

KfW Group has limit management systems, risk guidelines and various portfolio guidelines to limit risks from new business. This set of risk management instruments forms the basis for the second vote on lending transactions, serves as an orientation guide for loan approvals and has the function of ensuring the appropriate quality and risk structure of KfW Group's portfolio. The special nature of the group's promotional business is taken into account in the process. At KfW, Group Risk Management has the second vote on a single exposure level. KfW IPEX-Bank and DEG each have their own second vote independent of the front office. The relevant business decision-making processes are structured with a view to risk. Lending transactions currently require a second vote depending on the type, scope (material risk content and effect on the overall risk position) and complexity of the transaction. The qualification levels for approval of new business depend on rating, total commitments to the group of connected borrowers and product type. Approval is also required by the Board of Supervisory Directors' Risk and Credit Committee for pre-defined, individual transaction volumes (according to rating and product type).

The portfolio guidelines distinguish between different types of counterparties and product variants and define the conditions under which business transactions may generally be conducted. In addition, risk guidelines for countries, sectors and products are defined in order to react to existing or potential negative developments with specific requirements for lending. The limit management systems ultimately track both risk concentrations (concentration limits) and credit rating dependent individual counterparty risk (counterparty limits). Concentration limits serve to restrict risk concentrations in the loan portfolio and thus to prevent major individual losses. Counterparty limits serve to fine tune the counterparty-specific management of credit default risk. Existing higher-risk exposures are divided into a watch list and a list for non-performing loans. The watch list serves to identify potential problem loans early and, if necessary, to make preparations for handling these loans. It regularly reviews and documents the economic situation, the particular borrower's market environment and the collateral provided, and formulates proposals for remedial action – particularly proposals for risk-limiting measures. Non-performing loans and to a great extent watch-list loan commitments[3)] are handed over to restructuring units. This transfer of responsibility enables the involvement of specialists from an early stage to ensure professional management of problematic loans. The objective of this system is to achieve recovery of a loan through restructuring, reorganisation and work-out arrangements. If the business partner is deemed incapable or unworthy of restructuring, the priority becomes optimum realisation of the asset and the related collateral. The Restructuring department is responsible for non-performing loans and for providing intensive support to banks and higher volume loans with a risk amount greater than EUR 1 million in the KfW portfolio. The portfolio credit management department is responsible for supporting retail business. KfW IPEX-Bank and DEG's non-performing loans and commitments requiring intensive support are managed directly by each subsidiary. If more than one KfW Group company is involved, Restructuring will coordinate centrally. Internal interface regulations are in place in the relevant business sectors to ensure clear control of responsibilities and allocation. Restructuring also cooperates closely with the market areas and the legal department.

In the event of a crisis in the banking sector, the Risk Management department has to be able to act immediately both in-house and externally. A financial institution crisis plan is also in place for this purpose. It primarily provides for the establishment of a working group headed by the Risk Management department, immediate loss analysis and implementation of the necessary next steps.

Risk provisions for lending business

KfW Group takes appropriate measures to address all identifiable default risks in its lending business by making risk provisions for loans. These risks include the political risk resulting from financing transactions outside Germany. For loans with an imminent risk of default (i. e. non-performing loans), KfW Group recognises individual impairment charges or provisions for undisbursed portions. These events are identified on the basis of criteria that meet both CRR and IFRS requirements. Criteria include the identification of considerable financial difficulties on the part of the debtor, payment arrears, concessions made to the debtor owing to its financial situation (for example, in the context of restructuring measures), conspicuous measures undertaken by the debtor to increase its liquidity, and a substantial deterioration in the value of collateral received. Individual impairment charges are determined by means of an impairment procedure. The calculation of individual impairment charges in the non-retail business incorporates an individual assessment

[3)] The assumption of responsibility for watch-list cases at KfW IPEX-Bank is decided on a case-by-case basis by Risk Management in consultation with the unit responsible for restructuring.

of the borrower's ability to make payments in the future. The calculation takes into account the scope and value of the collateral as well as the political risk. A simplified impairment procedure is performed for small and standardised loans (retail business) on the basis of homogeneous sub-portfolios.

Risk provisions for latent risks (i.e. portfolio impairment) are derived from the valuation of loan receivables in the context of annual rating procedures and collateral valuations. Portfolio impairment charges are recorded for both economic and political risks based on the expected loss model described above, which is adjusted for IFRS purposes. Risk provisions for irrevocable loan commitments and financial guarantees are set up using the same method of calculation.

Maximum risk of default

According to IFRS 7.36, the maximum exposure to credit risk for KfW Group arising from financial instruments is the total loss of the respective risk positions. Contingent liabilities and Irrevocable loan commitments are also taken into account. Carrying amounts are reduced by the risk provisions made.
Payment arrears on the balance sheet date were reported only in Loans and advances to banks and customers, and Securities and investments. Individual impairment charges were also reported under Contingent liabilities and Irrevocable loan commitments.

Maximum risk of default

EUR in millions

	Loans and advances to banks		Loans and advances to customers		Value adjustments from macro fair value hedge accounting	
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Carrying amount as equivalent for maximum risk of default	276,880	279,707	133,135	118,213	14,420	18,461
Risk provisions for lending business	169	160	1,573	1,697	0	0
Carrying amount neither past due nor impaired	276,715	279,340	131,349	116,439	14,420	18,461
Collateral provided	*157,894*	*179,178*	*35,919*	*31,816*	*0*	*0*

	Derivatives used for hedge accounting; other derivatives		Securities and investments; investments accounted for using the equity method		Contingent liabilities; irrevocable loan commitments	
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Carrying amount as equivalent for maximum risk of default	43,655	38,463	31,925	30,900	67,349	65,654
Risk provisions for lending business	0	0	6	14	62	78
Carrying amount neither past due nor impaired	43,655	38,463	31,719	30,690	67,250	65,500
Collateral provided	*20,651*	*14,530*	*329*	*347*	*0*	*0*

Financial instruments past due and not individually impaired

EUR in millions

	Loans and advances to banks		Loans and advances to customers		Securities and investments; investments accounted for using the equity method	
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Carrying amount less than 90 days past due	52	242	318	521	1	1
Carrying amount 90 days and more past due	48	41	324	336	0	1
Total	**100**	**283**	**641**	**857**	**1**	**2**
Collateral provided	*58*	*250*	*203*	*283*	*0*	*0*

Individually impaired financial instruments
EUR in millions

	Loans and advances to banks		Loans and advances to customers		Securities and investments; investments accounted for using the equity method		Contingent liabilities; irrevocable loan commitments	
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
Carrying amount	65	84	1,145	918	205	208	100	154
Individual impairments, provisions	*38*	*51*	*1,159*	*1,271*	*0*	*0*	*19*	*30*
Collateral provided	*5*	*11*	*596*	*535*	*3*	*5*	*0*	*0*

As of 31 December 2015, EUR 1.5 billion (net after deduction of risk provisions, year-end 2014: EUR 1.4 billion) was classified as individually impaired out of EUR 567.4 billion (year-end 2014: EUR 551.4 billion) in financial instruments outstanding. Potential losses are conservatively estimated, and individual impairment losses of EUR 1.2 billion (year-end 2014: EUR 1.4 billion) were recognised[4].

In addition to provisions for immediate risks of default, KfW Group made provisions for latent risks of default (economic and political risks). As of 31 December 2015, risk provisions for transactions not individually impaired totalled EUR 0.6 billion (year-end 2014: EUR 0.6 billion). The collateralisation of loans in KfW Group's portfolio primarily relates to the on-lending business and the promotional business guaranteed by the Federal Republic or individual federal states *(Länder)*.[5] By far the largest portion of collateral is attributable to assigned ultimate-borrower receivables from the on-lending business. Tangible collateral, e. g. ships and airplanes, plays only a minor role in relation to the total amount of collateral.

The high exposure with regard to derivatives with positive fair values has to be seen in the context of the netting agreements with counterparties. These netting agreements also include derivatives with negative fair values and considerably reduce the counterparty risk.

KfW Group did not take possession of any significant assets previously held as tangible collateral in 2015. Deferred payments in the performing portfolio in 2015 were primarily in the Export and project finance business sector. This deferred payment volume is not significant based on total lending volume.

Portfolio structure

The contribution of individual positions to the risk associated with KfW Group's loan portfolio[6] is assessed based on an internal portfolio model. Concentrations of individual borrowers or groups of borrowers give rise to a risk of major losses that could jeopardise KfW Group's existence. On the basis of the economic capital concept, Risk Controlling department measures risk concentrations by individual borrower, sector and country. Risk concentrations are primarily reflected in the economic capital requirement, ensuring that high risk volumes and unfavourable probabilities of default are taken into account, along with undesirable risk correlations. The results form the main basis for managing the loan portfolio.

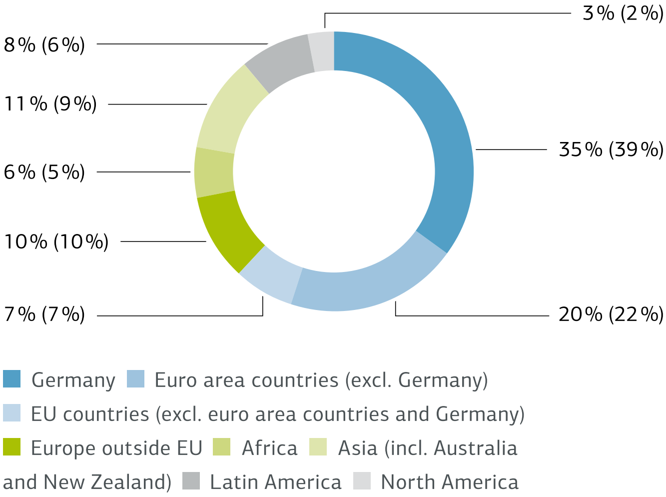
[4] The transaction of approximately EUR 15 billion mandated by the Federal Government as part of the support measures for Greece is completely hedged by a federal guarantee and is therefore not presented in the portfolio of individually impaired financial instruments.
[5] The collateral is presented as recognised for purposes of internal management of economic risks. Participation effects are taken into account in order to avoid reporting double collateralisation.
[6] The loan portfolio includes loans as well as securities and investments in performing business. The non-performing portfolio is only included in the presentation of credit quality.

Regions

As of 31 December 2015, 55 % of KfW Group's loan portfolio in terms of economic capital requirements was attributable to the euro area (year-end 2014: 61 %). New business, primarily in the business sector Promotion of developing and transition countries in Asia and Latin America, has resulted in a higher economic capital requirement in absolute and relative terms. Overall, developments in methods (reparametrisation of correlations in the loan portfolio model) have led to a lower economic capital requirement in Germany and the euro area. As a result, the Germany and euro area segments' relative share of the overall portfolio's economic capital requirement also decreased.

Economic capital requirements by region

31 Dec. 2015 (31 Dec. 2014)

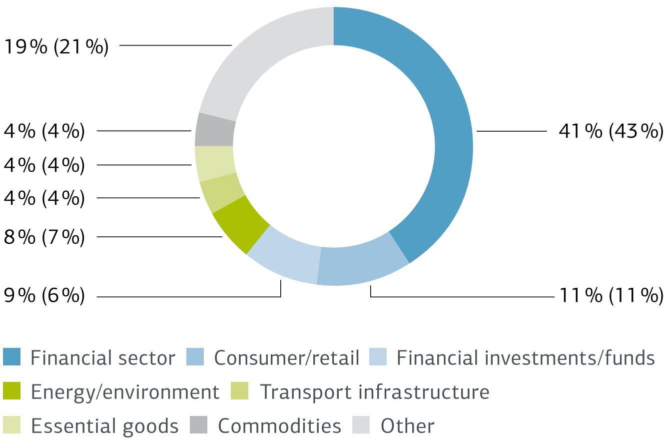


Sectors

The significant share of overall capital required for credit risks attributable to the financial sector is due to KfW Group's promotional mandate. By far the greatest portion of KfW Group's domestic promotional business consists of loans on-lent through commercial banks. The financial sector's economic capital requirement declined slightly overall – as firstly because the aforementioned developments in methodology reduced the economic capital requirement, and secondly because new business was mainly in good rating classes. Consequently, the financial sector's relative share of the overall portfolio's economic capital requirement also decreased. The share of financial investments/funds increased from 6 % in 2014 to 9 % in 2015, primarily as a result of the methodology revision for the exposure estimate for DEG positions.

Economic capital requirements by sector

31 Dec. 2015 (31 Dec. 2014)

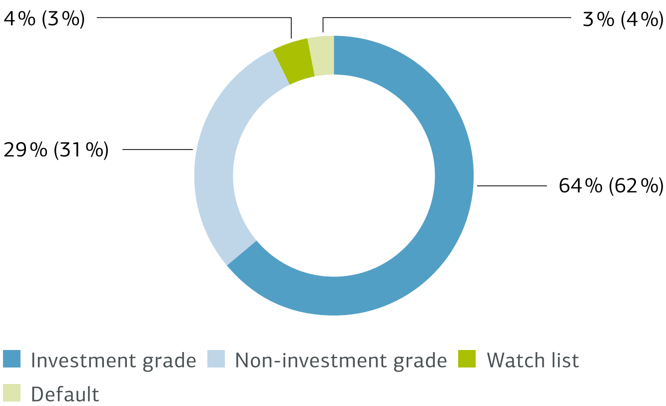


Credit quality

As credit quality is a major factor influencing economic capital requirements, it is appropriate in analysing the credit quality structure to examine the distribution of net exposure[7)] by credit quality category. Overall, net exposure increased in all investment classes, except for the default exposure. As the increase in net exposure was primarily due to new investment grade business, the relative share of investment grade net exposure rose from 62 % to 64 %, while the relative share of non-investment grade net exposure dropped from 31 % to 28 %. The average probability of default of KfW Group's loan portfolio improved slightly compared to 31 December 2014. KfW Group's loan portfolio therefore continued to possess a good credit quality structure.

Credit quality by net exposure

31 Dec. 2015 (31 Dec. 2014)



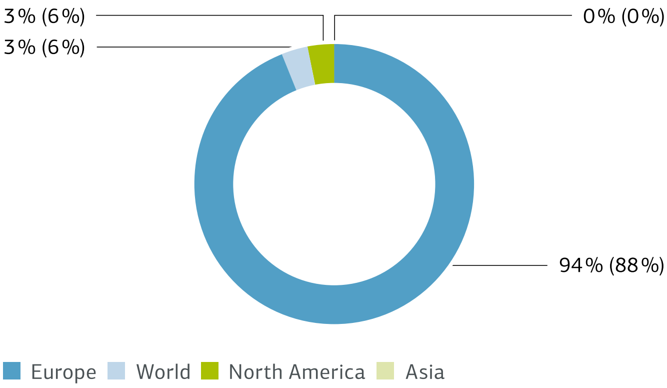
[7)] Net exposure is the economic loss that potentially occurs in the event of an economic or political default event.

Structured products in KfW Group's portfolio

Asset-backed securities (ABS)

ABSs had a par value of around EUR 4.2 billion as of 31 December 2015. Accounting for the mark-to-market valuation of the securities reported at fair value and impairments, the portfolio also had a book value (including pro rata interest) of around EUR 4.2 billion. The following tables show the composition of the ABS portfolio by asset class, rating and geographic distribution of the underlying assets in the securitisation portfolios.

Geographic breakdown of the underlying asset pool (based on par value)
31 Dec. 2015 (31 Dec. 2014)



Exposure based on par values
31 Dec. 2015

	CLO	RMBS	CMBS	CDO	ABS & other	Total 31 Dec. 2015	Total 31 Dec. 2014
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Investment grade	118	727	29	38	3,186	4,098	3,381
Non-investment grade	10	27	4	–	13	53	70
Watch list	–	16	–	–	–	16	–
Default	75	–	–	–	–	75	153
	203	**770**	**33**	**38**	**3,198**	**4,242**	**3,605**

The portfolio volume as of 31 December 2015 increased year-on-year (par value EUR +0.6 billion). Comparison of the portfolios' rating structure shows a considerable reduction in default positions. The regional focus Europe has continued to increase as can be seen in the geographic breakdown of the underlying asset pool compared with 31 December 2014. Overall, European securitisations, including German securitisations, performed well. The cumulative default rates for European securitisations remained very low.

Platform securitisations

Banks can transfer credit risk synthetically from SME loan portfolios to the capital market using the synthetic securitisation platform PROMISE. KfW Group complements its promotional offering with its synthetic securitisation programme PROVIDE, which aims to securitise private housing loans. The securitisation volume totalled EUR 1.0 billion as of 31 December 2015 and was fully provided by portfolio credit default swaps (CDSs)/financial guarantees and credit-linked notes. The year-on-year decline in the securitisation volume by EUR –0.85 billion was primarily a result of the use of the originator banks' call options. There are currently no immediate loss expectations for KfW Group.

MARKET PRICE RISK

KfW Group measures and manages market price risk on a present-value basis. The key drivers of market price risk in this context are:

– the interest rate structure (interest rate risk) for the EUR and USD currency areas,
– exchange rates (currency risk),
– basis spreads (basis spread risk) and
– issuer-related spreads for securities (credit spread risk).

In total, market price risk within the group required a total of EUR 5,278 million in economic capital as of 31 December 2015. This is EUR 276 million more than as of 31 December 2014. KfW Group market price risk is broken down as follows:

Total economic capital for market price risk

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Interest rate risk	3,356	3,458
Currency risk	681	528
Basis spread risk	1,057	795
Credit spread risk	183	221
Market price risk	**5,278**	**5,002**

Interest rate risk

KfW Group assumes limited interest rate risk in order to take advantage of long-term opportunities for returns. All relevant data from the preparation of fixed interest statements are considered in the determination of interest rate risk. On the basis of this data, KfW Group regularly performs value-at-risk calculations using a variance/covariance approach to assess its interest risk position. The management concept for interest rate risk is part of a long-term management philosophy. A substantial capital buffer is maintained in order to mitigate short-term fluctuations in present value caused by interest rates. In addition to this buffer, value at risk is computed at a solvency level of 99.99 % and for a period of two months in order to calculate risk-bearing capacity. The choice of this period is based on a conservative estimate of the maximum timeframe to close the entire interest risk position under adverse interest rate scenarios. Continuous monitoring of the risk position and the available management options ensures that the allocated capital is also sufficient to cover the risk for a one-year period in accordance with the uniformly applied solvency level of 99.99 %. Periodic stress tests supplement this calculation to estimate possible losses under extreme market conditions. Apart from this prescribed shift, the tests include scenarios such as a tilt of the yield curve and an extension of the holding period. The capital requirement for interest rate risk had fallen by EUR 102 million as of 31 December 2015.

Currency risk

Foreign currency loans are largely funded in the same currency or secured by appropriate foreign currency hedging instruments. DEG's foreign currency equity investments and to a small extent KfW Development Bank's promotional instruments are only funded in the same currency when possible and practical. Foreign currency earnings generated from the lending business throughout the year are sold promptly. As with interest rate risk, the economic capital requirement for liquid currency positions is calculated with a variance/covariance approach and comprises the sum of a capital buffer and a two-month value-at-risk at a solvency level of 99.99 %. A twelve-month value-at-risk is used for all currencies with limited trading and hedging opportunities. The Market Price Risk Committee classifies each currency as liquid or illiquid at least once a year. The currency portfolio predominantly comprises liquid positions. Stress tests are regularly conducted in order to estimate possible losses in the event of extreme market conditions. The capital requirement for currency risk had risen by EUR 153 million as of 31 December 2015.

Basis spread risk

Basis spread risk largely comprises tenor and foreign exchange basis spread risk. The economic capital requirement for this risk is calculated with a variance/covariance approach at a solvency level of 99.99 % and with a holding period of twelve months. Basis spread risk is taken into account in risk-bearing capacity through an add-on. The capital requirement for basis spread risk as of 31 December 2015 stood at EUR 1,057 million.

Credit spread risk

Risk measurement is carried out for the securities portfolio. The economic capital requirement is calculated using the historical simulation method on the basis of a credit spread time series comprising the previous three years (750 trading days). Value at risk is initially ascertained from credit spread changes for a holding period of one day at a confidence level of 95 %, and then scaled to a period of one year and a solvency level of 99.99 %. The risk measurement for ABS is based on ABS indices due to the low liquidity of these securities. The economic capital requirement for credit spread risk as of 31 December 2015 was EUR 183 million. Credit spread risk declined by EUR 38 million year-on-year. The decline in risk is largely due to lower credit spread volatilities.

LIQUIDITY RISK

Liquidity risk is the risk of not being able to make payments in a timely manner when due. A distinction is made between:

– institutional liquidity risk (the risk of not being able to meet payment obligations),
– refinancing risk (the risk that the required funds are only available at costs higher than the interest rate in line with the risks involved), and
– market liquidity risk (the risk of being unable to liquidate a financial position at an adequate price)

The primary objective of liquidity management is to ensure that KfW Group is capable of meeting its payment obligations at all times. KfW is available as a contractual partner for all commercial transactions of its subsidiaries, particularly for their funding. For this reason, the liquidity requirements of the subsidiaries are included both in KfW Group's funding plans and in the liquidity maintenance strategy.

Liquidity risk is measured on the basis of economic scenario analyses and the utilisation threshold under the KfW Law. In addition, liquidity gaps are limited based on business already concluded and available liquidity potential.

A significant component for liquidity risk assessment comprises the contractual payment obligations (principal and interest) of KfW Group arising from financial instruments, which are shown in the table below by maturity range:

Contractual payment obligations arising from financial instruments by maturity range as of 31 December 2015[1)]

	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year	More than 1 and up to 5 years	More than 5 years	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks and customers	21,281	1,625	1,097	3,205	10,842	38,050
Certificated liabilities	24,634	30,837	60,363	225,338	97,156	438,328
Net liabilities under derivative financial instruments	–780	–1,298	–5,640	–15,273	–13,244	–36,236
thereof Liabilities under derivative financial instruments	*20,522*	*20,327*	*40,608*	*128,039*	*62,049*	*271,546*
Subordinated liabilities	0	0	5	25	345	376
Liabilities under on-balance sheet financial instruments	**45,134**	**31,164**	**55,825**	**213,295**	**95,099**	**440,518**
Contingent liabilities	5,186	0	0	0	0	5,186
Irrevocable loan commitments	62,163	0	0	0	0	62,163
Liabilities under off-balance sheet financial instruments	**67,349**	**0**	**0**	**0**	**0**	**67,349**
Liabilities under financial instruments	**112,483**	**31,164**	**55,825**	**213,295**	**95,099**	**507,867**

[1)] Net liabilities under derivative financial instruments comprise payment obligations which are offset against the corresponding payment claims from derivative contracts; the gross liabilities are reported as Liabilities under derivative financial instruments. Irrevocable loan commitments and Contingent liabilities are generally allocated to the first maturity range.

Contractual payment obligations arising from financial instruments by maturity range as of 31 December 2014[1)]

	Up to 1 month	More than 1 and up to 3 months	More than 3 months and up to 1 year	More than 1 and up to 5 years	More than 5 years	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Liabilities to banks and customers	14,097	1,629	462	3,497	12,974	32,659
Certificated liabilities	16,936	23,109	62,849	217,998	106,746	427,639
Net liabilities under derivative financial instruments	–809	–809	–2,335	–10,399	–12,138	–26,490
thereof Liabilities under derivative financial instruments	*12,502*	*19,468*	*38,140*	*125,183*	*65,959*	*261,253*
Subordinated liabilities	0	0	47	2,342	0	2,389
Liabilities under on-balance sheet financial instruments	**30,225**	**23,929**	**61,023**	**213,438**	**107,582**	**436,197**
Contingent liabilities	5,606	0	0	0	0	5,606
Irrevocable loan commitments	60,048	0	0	0	0	60,048
Liabilities under off-balance sheet financial instruments	**65,654**	**0**	**0**	**0**	**0**	**65,654**
Liabilities under financial instruments	**95,879**	**23,929**	**61,023**	**213,438**	**107,582**	**501,851**

1) Net liabilities under derivative financial instruments comprise payment obligations which are offset against the corresponding payment claims from derivative contracts; the gross liabilities are reported as Liabilities under derivative financial instruments. Irrevocable loan commitments and Contingent liabilities are generally allocated to the first maturity range.

Internal measurement of liquidity risk is based on scenario calculations. This approach first analyses the expected inflow and total outflow of payments for the next twelve months based on business already concluded. This basis cash flow is then supplemented by planned and estimated payments (e.g. borrowings from the capital market, expected liquidity-related loan defaults or planned new business). The result provides an overview of the liquidity required by KfW Group over the next twelve months. The liquidity required is calculated for different scenarios. In this respect, market-wide and institution-specific risk factors are stressed and an evaluation is made of the impact on KfW Group's liquidity.

Parallel to the above approach, KfW Group also determines the available liquidity potential, which largely consists of KfW's collateral account with the European Central Bank, repurchase agreement assets, liquidity portfolios and the volume of commercial paper that is regularly placeable on the market. The available liquidity potential is subjected to stress analysis in the same way as the other cash flow components. The ratio of cumulative required liquidity to the cumulative available liquidity potential is calculated for each scenario. This figure may not exceed the value of 1 in any scenario for any period. The prescribed horizon in the normal case scenario is twelve months, in the stress case six months, and in the two worst case scenarios, three months. The scenario assumptions are validated on an annual basis.

The key figures are calculated and reported to the Market Price Risk Committee on a monthly basis. The following table shows the key risk indicators for the scenarios as of 31 December 2015:

KfW liquidity risk indicators as of 31 December 2015

	Indicator
Normal case	0.24
Stress case	0.34
Worst case	0.32
Worst case (institution-specific)	0.54

The internal liquidity risk indicators remained considerably below the maximum limit of 1 throughout 2015.

Current funding environment

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

With its broad offering of debt securities, KfW was able to successfully complete its long-term funding and meet investors' demand in various currencies despite the volatile market and low interest rate environment. KfW raised a total volume of EUR 62.6 billion in 14 different currencies and 175 individual transactions in financial year 2015. Overall, the euro and the

US dollar remained the two most important currencies in the funding mix, although for the first time, debt securities denominated in US dollars presented a greater share of total funding (45 %) than those denominated in euros (37 %).

The development of KfW's business activities in the money market segment was once again very encouraging in 2015. The volume of the euro commercial paper programme created for investors around the world was increased from EUR 40 billion to EUR 50 billion in May 2015 and is KfW's most important source of short-term funding. As planned, the volume issued in the euro commercial paper programme was considerably higher in 2015 compared to the previous year. The outstanding volume amounted to EUR 31.8 billion at the end of 2015 (year-end 2014: EUR 25.2 billion). The US commercial paper programme, with a programme volume of USD 10 billion, is specially designed for the US market. KfW uses this programme to cover a large portion of its need for short-term funds in US dollars. The volume issued in this programme was also higher than in the previous year. The outstanding volume amounted to USD 8.1 billion at the end of 2015 (year-end 2014: USD 7.6 billion).

OPERATIONAL RISK AND BUSINESS CONTINUITY MANAGEMENT (OPERATING RISK)

KfW Group uses operating risk as the umbrella term for operational risk and risks arising from business interruption.

KfW Group's organisational structure provides for a two-tier system comprising decentralised management units and a central control unit liaising with the Operational Risk Committee. Operating risk management is decentralised within the business sectors and the subsidiaries, and is performed by the respective directors or managing directors and the respective sector coordinators of Operational Risk and Business Continuity Management. An operating risk management team performs central control of operating risk in the area of Risk Management and Controlling. It develops the methods and instruments for identifying and assessing operating risk and monitors their uniform application.

The aim of management and control of operational risk and business continuity management is the proactive identification and averting of potential losses for KfW Group, i. e. to make emergencies and crises manageable and to secure KfW Group's structural ability to remain in operation despite the loss of key resources.

In accordance with Article 3, sentence 52 of the CRR, KfW Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and model risks. Reputational and strategic risks are not included in the definition of operational risk.

Legal risk is the risk of losses resulting from infringement of applicable legislation. This includes the risk of losses due to a change in the law (change in case law or legislation) relating to transactions concluded or investments made in the past, and the risk of having to make payments in connection with alleged infringements of the law. The risk of having to adjust future business activities in response to a change in the law does not constitute an operational risk. KfW Group addresses legal risk by involving its in-house legal department early in the process and by cooperating closely with external legal advisers in Germany and abroad.

Model risk is the potential loss that an institution may suffer as the result of decisions taken largely based on the results of internal models that prove erroneous upon development, implementation or application.

Losses are recorded in KfW Group in an OpRisk events database. After each quarter, a detailed report is made in the relevant departments of the loss events recorded and any measures introduced as a result. The Executive Board, the Board of Supervisory Directors and the Operational Risk Committee are briefed monthly or quarterly as part of internal risk reporting. Ad hoc reports are also made if a loss exceeds a certain level.

In addition, operational risk is systematically recorded in risk assessments that are carried out group-wide. Such assessments also examine new activities in the New Products Process (NPP) as well as outsourced activities in outsourcing management for potential operational risks. Within the risk assessments, operational risk is measured on the basis of internal data or expert estimates which are backed by a distribution assumption for loss frequency and amount. The potential losses revealed in the risk assessments carried out are reported to the directors and heads of department once the data have been collected. Throughout the year, each business area checks the implementation of its risk indicators for the purpose of monitoring whether the potential losses established in the risk assessment are above a fixed threshold value. As part of the risk assessment, the business areas review the implementation of additional risk-mitigating measures (e. g. checks as part of an internal control system – "ICS").

Business continuity management is implemented if a business interruption occurs due to internal or external events. This is an integrated management process which covers all the aspects of the four key outage and loss scenarios: site outages (building or infrastructure), IT system outages, staff outages and service provider outages. Business continuity management incorporates preventative components (emergency preparedness) and reactive components (emergency and crisis management) in equal measure.

For the purpose of business continuity management, business processes are analysed and categorised based on how critical they are, and the supporting resources for each case examined accordingly. Identifying critical business processes and their dependency on supporting resources forms the basis for effective business continuity management. Individual measures are developed for these business processes and their supporting resources, ensuring that the required availability is guaranteed and business risks are reduced. These include emergency workstations, emergency plans, communication tools and alerts/alarms. KfW Group's crisis team takes responsibility for crisis management as a whole when unforeseen events occur. It practises emergency and crisis organisation teamwork in regular crisis team tests.

OTHER RISKS

Equity investment risks

In managing equity investment risks, KfW Group differentiates between risks from equity investments at operational level and strategic equity investments.

Equity investments (operational level)

In making operational level private equity investments, the bank fulfils its mandate from the Federal Government to conduct promotional business, particularly financings. Accordingly, there are equity investments in connection with domestic and European investment financing and in the area of Financial Cooperation and in the business sector Export and project finance. Equity investments at operational level are used to carry out KfW Group's promotional mandate. KfW Group-wide basic rules for equity investments at operational level are set out in guidelines. Specific rules tailored to certain segments of equity investments are also set out in sub-portfolio guidelines, working instructions or risk guidelines. Risk measurement is performed at an individual loan commitment level for operational level equity investments in the same way as for credit risk. In terms of reporting requirements, equity investment portfolio risk is reported separately.

Strategic equity investments

Strategic equity investments support KfW's mandate of providing an efficient and long-term promotional offering. In addition to reinforcing and expanding core competencies, the focus of this investment type is on complementing KfW's business sectors. Strategic equity investments normally have a long-term holding period. A dedicated organisational unit is responsible for strategic equity investments based on an equity investment manual that describes legal bases, strategies, principles, procedures and responsibilities of equity investment management. Acquisitions and disposals of, and changes to strategic equity investments are subject to defined due diligence processes, as well as authorisation by the Executive Board and Board of Supervisory Directors in accordance with the KfW Bylaws. In addition, taking a stake in an equity investment in excess of 25% requires authorisation by the Federal Ministry of Finance in accordance with the Federal Budget Code *(Bundeshaushaltsordnung – "BHO")*. Strategic equity investments and their individual risks are constantly monitored and are presented to the Executive Board as part of an annual equity investment report – as well as in ad hoc reports. The individually defined strategies for the equity investments are updated annually. Moreover, the group is normally represented in the supervisory bodies of its strategic equity investments.

Due to the high risk relevance for KfW Group and for reasons of uniform group management, KfW IPEX-Bank and DEG's risks are managed as part of KfW Group risk management. For example, the subsidiaries' business activities are included under the look-through principle in KfW Group-wide limits and in KfW Group's capital budget, while representatives of the subsidiaries are included in KfW Group's risk committees. The group also monitors DEG and KfW IPEX-Bank on a stand-alone basis and regularly reports to the Executive Board as part of the monthly internal KfW Group risk report.

Reputational risk

Reputational risk is the risk that the perception of the group from the point of view of the relevant internal and external interest groups will deteriorate for the long term with a negative impact on KfW. This negative impact could lead to a decrease in KfW Group's net assets, earnings or liquidity (e.g. decline in new business) or may be of a non-monetary nature (e.g. difficulty in recruiting new staff). Reputational risk may arise as a consequence of other types of risk, or independently.

In the risk management process, reputational risk is managed in a decentralised manner. The framework for this purpose includes sustainability management with group-wide environmental and social principles relevant to credit approvals, or basing the management of KfW Group's own securities portfolio on sustainability criteria. Furthermore, examinations of new activities in the New Products Process as well as of outsourced activities in outsourcing management are regularly conducted to detect potential reputational risks.

Moreover, as part of risk identification, the central reputational risk control function coordinates qualitative reputational risk assessment and creates a risk profile outlining the group's greatest reputational risks. In addition, reputational risk events that have occurred are reported on an ongoing basis.

Project risk

Original project risk comprises, in particular, planning assumptions that turn out to be inaccurate. Project risk has implications for the achievement of project objectives with regard to cost, time and quality (e.g. underestimating the cost of implementation, failing to take account of time constraints arising from parallel projects). KfW Group's project risk arises particularly in connection with various major long-term projects. Managing project risk is part of project management and takes place in both the project planning and execution stages.

The Central Project Management Office supports major projects in fulfilling their objectives and achieving their targets. As the central authority for project portfolio management, it provides the methodological framework for KfW Group's major project implementation and creates transparency at the level of the entire project portfolio. This enables the Project Board and Executive Board to take targeted decisions. Setting methodological requirements through the Central Project Management Office enables a consistently high quality of implementation. Compliance with this framework and these requirements by major projects is also monitored and supported.

Internal monitoring procedures

Internal Auditing

Internal Auditing is an instrument of the Executive Board. As an entity that works independently of KfW Group procedures, it audits and assesses all of KfW Group's processes and activities to identify the risks involved and reports directly to the Executive Board.

With a view to risk management processes, Internal Auditing in 2015 audited the decentralised risk management processes and central aspects of risk management and risk control which were relevant group-wide. Focal points included analyses of market risk and reporting in support of major projects, as well as assessing the management of the application of the KWG standards. Regarding decentralised risk management processes, the audit focused on processes in risk management of financial institutions and strategic equity investments, among other areas.

As in previous years, Internal Auditing also monitored the continued development of risk measurement procedures in 2015 by participating (with guest status) in meetings of decision-making bodies.

Internal Auditing also functions as KfW Group's internal auditing department. It is involved in subsidiaries' audit planning and incorporates the audit results of the subsidiaries' internal auditing departments in group-wide internal audit reporting.

Compliance

The success of KfW Group is largely based on the confidence its shareholders, customers, business partners, employees and the general public place in its efficiency and above all in its integrity. This confidence rests not least on the implementation of and compliance with relevant statutory, supervisory and internal regulations and other relevant laws and rules. The Executive Board bears the overall responsibility for compliance in the Group. The Executive Board delegates the associated tasks to the Compliance department.

The Compliance organisation structure is aligned with the requirements for a MaRisk compliance function. Adhering to this, group compliance has, for a number of years, included measures to comply with data protection regulations as well as measures for the prevention of insider trading, money laundering, terrorism financing and other criminal activities, and for monitoring legal requirements and the associated implementation measures. There are therefore binding rules and procedures that influence the day-to-day implementation of values and the corporate culture, which are continually updated to reflect current law as well as market requirements.

Regular training sessions on compliance and anti-money laundering are held for KfW Group employees. In addition to these classroom seminars, e-learning programmes on data protection, information security, securities compliance, and prevention of money laundering and fraud are available.

Internal control system (ICS)

The aim of KfW Group's ICS is to use suitable principles, measures and procedures to ensure the effectiveness and profitability of business activities, compliance with the legal requirements applicable to KfW Group, the accuracy and reliability of external and internal accounting, and the protection of assets.

There are group-wide ICS rules as well as binding group-wide minimum requirements of the ICS. KfW Group's ICS is based on the relevant legal (bank regulatory) requirements[8)], in particular those set forth in the KWG and MaRisk, and the market standard COSO model[9)].

In accordance with the COSO model, the ICS consists of the five following interrelated components: control environment, risk assessment, control activities, information/communication and monitoring/auditing. These components extend to all KfW Group's organisational entities, functions and processes. The control environment is the environment within which KfW Group introduces and applies rules. Risk assessment includes the identification, analysis and evaluation of risks that result from implementing corporate strategy. Control activities are aimed at achieving corporate objectives effectively and detecting or minimising risks. Adequate information and communication procedures in KfW Group enable all stakeholders to be provided with the information they need in the necessary detail. Appropriate monitoring and audit mechanisms determine the functionality and effectiveness of the ICS.

Procedural rules form the basis of the ICS. This framework lays out the conditions for proper business organisation in KfW Group and formulates binding rules and requirements for preparing organisational guidelines including process diagrams and controls.

8) See Section 25 a (1) no. 1 KWG, MaRisk AT 4.3, and Sections 289 (5), 315 (2) no. 5, 324, and 264 d HGB.
9) COSO = Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org

Workflow organisational measures and controls ensure that monitoring is integrated into processes. Monitoring measures integrated into processes serve to avoid, reduce, detect and/or correct processing errors or financial loss.

KfW Group has implemented accounting-related controls to minimise the risk of error in stand-alone and consolidated financial statements and ensure the correctness and reliability of internal and external financial reporting. The accounting-related controls are part of the ICS.

In ICS testing, Internal Auditing examines the proper implementation of controls relevant to ICS.

The system is supplemented by the Compliance department, which, on the basis of statutory and supervisory requirements/conditions, defines and monitors compliance with relevant measures. The Compliance function performs regular process-based and accompanying monitoring of the relevant areas of the internal control system. It also takes into account the results of the Risk Controlling function (including OpRisk).

The adequacy and effectiveness of the ICS is also assessed by Internal Auditing on the basis of risk-based audits carried out independently of group procedures.

The details of the implementation of the internal control system at KfW and its legally independent subsidiaries KfW IPEX-Bank and DEG are determined by central requirements as well as the relevant business sectors and risk strategies.

The Executive Board holds overall responsibility for the group's internal control system. At DEG and KfW IPEX-Bank, overall responsibility is held by the management. The design and implementation at the different corporate levels is the responsibility of the relevant managers according to the organisational structure. A report is rendered annually to KfW Group's supervisory bodies.

To ensure the adequacy and effectiveness of the ICS, KfW Group regularly scrutinises and continually refines KfW Group's standards and conventions and ensures that they are implemented in the business sectors on a permanent basis.

Forecast and opportunity report

The following forecast and opportunity report mainly reflects the scope and content of the group forecast and opportunity report published in the group management report. As business sector planning and earnings projections are prepared at KfW Group level, a forecast and opportunity report is not prepared at individual institution level. The following forecast figures therefore relate to KfW Group.

General economic environment and development trends

KfW expects **global growth** of 2¾ to 3¾% for the year 2016, which means that global economic momentum will likely turn out to be somewhat stronger than in 2015.

Economic recovery is expected to continue in the **industrialised countries** in 2016, particularly in the largest economies: the United States, the euro area and Japan. Improved employment prospects in many countries, increasing private consumption, appropriate fiscal policy (there is no longer excessive pressure to reduce budgetary expenses), lower prices for energy and other commodities as well as the persisting favourable interest rate environment are all conducive to the expected continuation of economic recovery.

There are considerable differences in the rates of growth among the group of **developing and transition countries.** Major emerging market countries (Brazil, Russia, etc.) and commodity exporters remain in a very difficult phase. China's economic slowdown is expected to gradually continue, although a hard landing is unlikely. Key factors for developing and transition countries are, on the one hand, external (commodity prices, USD exchange rate and dependency on the Chinese and industrialised countries' economies). On the other hand, however, these countries have the power themselves to improve their prospects through economic reforms.

The members of the **EMU** will continue their gradual recovery in 2016. Of positive note is in fact that the upward trend now has a broader regional foundation. Private consumption remains the main growth driver, supported by a reduction in unemployment. As in the previous year, expansionary monetary policy is likely to buoy the real economy by reviving lending and weakening the euro. Fiscal policy is also lending some support for the first time since 2010. Additional spending to address refugee migration and combat terrorism are contributing factors as well. Overall, KfW forecasts annual price-adjusted GDP growth of around 1.6% in EMU countries in 2016. Despite the progress, the persisting weak period is set to continue for some time yet; euro area production will remain below its potential in 2016 as well. The associated high rate of unemployment continues to place a strain on political stability.

The **German economy** was generally in a healthy state at the beginning of 2016. The business climate improved considerably over the course of the previous year, despite sagging somewhat at the start of the new year due to worldwide stock exchange turmoil. The main driver of economic momentum, brisk domestic demand, remains strong. Employment will continue to rise, along with wages. Inflation and interest rates will remain low on average over the year. Thus, consumer spending will again be the most significant driver of growth in 2016. As with housing construction, consumer spending will also receive an additional boost from the influx of refugees. Exports are likely to increase – in view of the anticipated improvement in emerging market countries' recently disappointing growth as well as the continuation of Europe's moderate recovery – and ensure better utilisation of industrial capacity. Corporate investments should consequently recover, after having had temporarily lost some momentum in 2015. All in all, KfW expects real growth in 2016 to be similar to that of the previous year (1.7%). The 2016 economic growth forecasts publicly available at the beginning of 2016 ranged from 1.3% to 2.2%.

The **low interest rate environment** will remain for the course of 2016 as well. The US Federal Reserve began its exit from its ultra-loose monetary policy by increasing interest rates for the first time in nine years. However, the US Federal Reserve will likely proceed very cautiously in further tightening the monetary reins. The ECB will maintain its very expansionary monetary policy for quite some time yet, as stressed not least in the December 2015 resolution to extend its securities purchase programme until March 2017 or later. In this environment, there continues to be minimal potential to increase interest rates, particularly in the euro area.

The fact that the United States, on the one hand, and the euro area and Japan, on the other, now pursue opposing monetary policies, combined with uncertainty regarding the pace at which the United States will undertake subsequent interest rate increases, poses risks for other countries as well. International equity, bond and currency markets are thus likely to become volatile.

Significant geopolitical and global economic **risks** persist. For Europe and Germany, these risks are concentrated in the international environment. Political controversies (triggered, for example, by the influx of refugees or the lack of progress in countries undertaking reforms), unfavourable geopolitical developments and new terrorist attacks could harm confidence in the recovery and, just as another unexpected downturn in the global economy (for example, as a result of increasing interest rates too quickly in the United States, commodity price turbulence or a stronger economic slowdown in China), could result in real growth that is lower than the forecast in this report.

Risk outlook – Risk situation and risk-bearing capacity

The **industrialised countries** as a group are showing moderately positive economic growth at present. Although this trend remains driven primarily by positive momentum in the United States, growth prospects for the euro area have also improved. However, due to a potential policy change and persisting structural problems, euro area political risk is likely to remain an important factor. Although Japan's prospects have improved slightly, economic momentum will remain at a low level. Many **emerging market countries** have recently experienced a significant slowdown in growth. Commodity-exporting countries in particular have suffered significant declines in growth as well as currency depreciation. This group remains highly vulnerable to new shocks. In addition, there is the risk that geopolitical tensions or renewed unrest in the financial markets may trigger a considerable setback. Accordingly, the risks for global economic activity remain high.

Implementation of the bail-in rules represents the key reform for European **banks** in 2016. These rules permanently change the risk profile for bank bonds and will likely result in slight increases in funding costs. Given that the ECB will continue to pursue its expansionary monetary policy in 2016 and accordingly maintain the low interest rate environment with narrow margins, cost-cutting programmes at banks will continue to play an important role. Reducing bad debt as a means of decreasing the share of non-performing loans in loan portfolios will continue to be important to banks in 2016. Regulatory pressure on banks' capitalisation will also remain high. After the significant rise in Tier 1 capital ratios in the past few years, there is likely to be a stronger focus in 2016 on the creation of Tier 2 capital and other loss-bearing liabilities in order to meet future requirements for Total Loss-Absorbing Capacity (TLAC) and the minimum requirement for eligible liabilities (MREL). The political changes in the euro area's peripheral countries, the tension between Russia and Ukraine and between Russia and Turkey, and the economic uncertainties in China pose further potential risks for banks active in those regions.

Slightly better performance is expected from the German **corporate sector** in 2016 than in 2015. The positive impetus primarily stems from private households. Companies continue to benefit from favourable terms due to good credit availability and lending structures that are gradually being eased. The effects on Volkswagen but also on the European automotive industry as a whole of the scandal involving the manipulation of exhaust emissions cannot be estimated yet.

The German **private equity market** recently hit a new high. The persisting low interest rate environment, increasing interest in German companies among foreign investors, but also new financing offerings on the domestic market – both public and private – are being met with commensurate demand for equity financing, particularly in the venture capital area. The market outlook for 2016 also appears favourable, due to these positive conditions. However, the positive sentiment may wane depending on the development of the general political-economic environment. Compared with the previous year, a mixed picture is emerging for 2016 in the major countries in which DEG invests. Slightly higher economic growth can be expected in Africa and emerging markets. Expectations for developing countries remain cautious.

As in the previous year, the European **securitisation market** is likely to be influenced by the ECB's ABS purchase programme in 2016. The strong demand from the ECB will run up against a still rather limited supply, resulting, in combination with the ECB's expansionary monetary policy, in continued pressure on yields. The performance outlook for securitisations from core and northern Europe remains constant at a positive level. Slightly positive fundamental performance is expected from periphery ABSs in 2016, in view of a certain amount of macroeconomic recovery in their countries of origin.

Overall, KfW does not anticipate expected developments in the segments of the group that are relevant in terms of risk to have material effects on the group's risk situation.

The forecasts for **KfW Group's Tier 1 and total capital ratios** prepared in the group's internal capital adequacy process show that they are likely to clearly meet the expected legally required minimum levels in 2016. Stable overall developments are anticipated for the group's economic risk-bearing capacity (99.99 % solvency level) in 2016.

Potential changes in economic, political, legal and regulatory conditions may have a significant impact on capital ratios and economic risk-bearing capacity. There is thus considerable uncertainty regarding the forecast for 2016.

The year 2015 showed a stable **liquidity situation,** and key liquidity risk indicators were within the defined limits at all times. Planned funding volume was increased given the rise in new commitment volume in the second half of 2015. Moreover, the greater need for follow-up funding necessitates an additional adjustment of the funding target in 2016. Unscheduled repayments can be expected to remain at a high level. No significant changes in liquidity risk are anticipated, due to the continued stable funding situation.

New business projections

Overview

The planned **new business volume** of EUR 74.9 billion for 2016 is below the 2015 figure (EUR 79.3 billion), which was influenced by non-recurring effects, particularly in the business sector Export and project finance. While a decrease in promotional business volume is expected in the business sector Export and project finance due to the exceptional situation in 2015, the promotional business volume in the domestic business sectors and in Promotion of developing and transition countries is expected to remain almost at the level of 2015. To implement KfW Group's strategic objectives, the plans for the group's business sectors contain measures with a strategic focus on financings with a high degree of relevance to development and on an orientation of business activities towards the key megatrends of "climate change and the environment", "globalisation and technical progress" and "demographic change". The portion of new commitment volume dedicated to climate and environmental protection financing is planned to be 34%, thereby achieving the strategic objective requirement of approximately 35%. The strategic objective with respect to the SME share of financing is also expected to be achieved; the share of planned financing for SMEs in domestic promotional business of 45% is expected to be at the target level set in the strategic objectives (approximately 45%).
The focus in KfW's domestic promotional business will remain on SME financing and on safeguarding the viability of companies. KfW's international business areas are staying on course for growth in the medium term in order to support the internationalisation of German companies as part of globalisation.

Domestic business

Domestically, KfW supports the German economy with the promotional programmes of the business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) through the promotion of investments by private individuals, companies, cities and municipalities as well as non-profit and social organisations.

Mittelstandsbank (SME Bank) regards itself as a reliable and goals-oriented financing partner of SMEs in Germany for the future. In addition to a reliable offering of basic financing, Mittelstandsbank also provides products geared specially to innovation in order to strengthen the SME sector and improve its ability to adapt to global competition; it also indirectly contributes to creating and safeguarding jobs by means of inexpensive, long-term financings for investment and start-up projects, as well as for corporate succession.
Mittelstandsbank remains an important financing partner in environmental and climate protection with around 40% of its commitment volume, thus making an important contribution to Germany's energy transition *(Energiewende)*. In 2015, implementation of the new energy efficiency programme to promote energy efficiency measures in the commercial sector significantly improved this area's promotional offering further.
The following market developments are important external factors for Mittelstandsbank:

1. Favourable prospects for the German economy in 2016; increasing demand for lending given the low interest rate environment and revival or expansion of corporate investments in Germany.
2. The digitalisation of the financing landscape (increasing internet awareness among customers, new online providers, digitalisation activities on the part of banks) and of SMEs (Industry 4.0, etc.) is advancing at a fast pace and with great disruptive power.
3. Companies' innovative power and speed are therefore key to the success of Germany's economic development. At the same time, the aging of SME entrepreneurs reduces their propensity for innovation and investment, what makes the issue of corporate succession even more important.
4. The energy transition remains one of the German government's chief economic and environmental policy projects, further strengthened by the G7 decarbonisation commitment and the Paris Agreement on the reduction of climate change. Environmental and climate protection financing thus continues to be strongly shaped by the regulatory framework at national and European levels, particularly for investments in renewable energy, expansion of which depends primarily on how the national promotional system is designed.

Consequently, the focus is on the following areas in 2016:

- Expanding Mittelstandsbank's already high commitment level in the context of Germany's energy transition and supporting the Federal Government in achieving its energy and climate protection targets.
- Full implementation and further development of an equity investment strategy with the launch of a co-investment fund (scheduled for the beginning of 2016).
- Improved marketing of the product offering for SME corporate succession.
- Expansion of the promotional offerings for digitalisation/ Industry 4.0.
- Systematic digitalisation of all dimensions of the promotional business (products, marketing, processes) as the main medium-term strategic target of Mittelstandsbank. As of mid-2016, the "On-lending Online 2.0" distribution platform for Mittelstandsbank's first products as well as for its pilot sales partners is expected to go live, paving the way for the fully online application and approval of commercial promotional products.

Mittelstandsbank plans to continue providing financing at the same level in 2016 as in the previous year with new business volume totalling EUR 20.7 billion.

Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) continues to focus its promotional activities on the two megatrends "climate change and the environment" and "demographic change". In addition to its focus on private clients, the long-term objective of the business sector is to continue being a reliable partner to municipalities and municipal service companies as well as to the promotional institutions of the federal states *(Landesförderinstitute)*.
Four major factors contribute to ongoing high demand in KfW's private client business in the medium term:

1. Climate change and Germany's energy transition drive up demand in the housing-related programmes for "Energy-efficient Construction and Refurbishment".
2. The persisting low interest rate favours investments in residential properties.
3. Demographic change requires increasing investment in the development of needs-based housing.
4. The increased intensity of education and the qualifications of professionals require continued strong commitment to educational programmes for primary and secondary school pupils, university students and those in professional training.

The "Energy-efficient Construction and Refurbishment" programmes, in particular, position KfW as a main promoter of environmental protection for private clients and a standard setter for energy efficiency in residential buildings. The business sector pursues the strategic aim of "demographic change" within the framework of promotional activities through programmes to improve accessibility in existing properties and public spaces, as well as through reliable and customer-focused financing offerings for housing and education. This strategic aim for further development of education financing towards "lifelong learning" supports KfW's "private individuals" customer group. In the promotion of municipal infrastructure, the two basic programmes "IKK – Investment Loans for Municipalities" and "IKU – Investment Loans for Municipal Companies and Social Organisations" serve to position KfW as a reliable partner to municipalities and municipal service companies. In infrastructure promotion too, KfW is increasingly focusing on the aims of climate and environmental protection and consequently the promotion of energy efficiency and energy saving. Overcoming the refugee crisis presents particular challenges for municipalities to make refugee accommodation available at short notice. It also creates an additional need for investments in schools and childcare facilities. Demand also persists for KfW's commitment to support municipalities and their promotion of investment. As a refinancing partner for the promotional institutions of the federal states, the business sector aims to ensure the business volume of programme-based global loans at the current high level and selectively expand it for programmes relevant to Germany's energy transition and social housing promotion. The business volume of "general funding" is to be expanded to a certain degree. Due to the major importance of KfW's customer group SME, the business sector's traditional domestic promotional offering is complemented primarily by global loans for lease financing and global loans to selected European commercial and promotional banks for SME and energy-efficiency financing.
For 2016, Kommunal- und Privatkundenbank/Kreditinstitute expects a promotional business volume of EUR 28.4 billion.

Capital markets
Efforts to stabilise and diversify SME financing via the capital markets remain under way at European level. Securitisation products, for example, play a major role in the European Commission's action plan for a European Capital Markets Union. In its activities to provide capital market-based support to SMEs, the business sector Capital markets contributes to diversifying and stabilising funding opportunities in the commercial sector. Promotion in this business sector has been gradually extended to include Europe since spring 2015 under the expanded promotional mandate via the Federal Ministry for Economic Affairs and Energy and the Federal Ministry of Finance. In addition, KfW along with the European Investment Fund (EIF) heads a working group consisting of European national promotional institutions and the EIF on the issue of "SME securitisation in Europe". The aim of this working group is joint involvement in SME securitisation transactions. To this end, the working group is defining standardised processes and minimum criteria under which the different promotional institutions can participate in these securitisation transactions.
KfW has invested in green bonds since April 2015 under a promotional mandate of the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety in order to make a contribution to funding suitable environmental and climate protection projects via the capital markets as well to support further development of the young market segment. KfW will continue to expand its portfolio to EUR 1 billion over the coming three to four years.
For 2016, the business sector Capital markets expects new business volume for both products of EUR 1.3 billion.

International business
The objective of the **Export and project finance** business sector continues to be, as a specialist financier and responsible partner, to strengthen the German and European economy. Economic performance in the markets relevant to the business sector is stable in Germany and moderately positive in Europe. The euro area's recovery provides important impetus for export industry customers. A structural slowdown in growth can be noted in the relevant developing and transition countries, for example, in China, Russia and Brazil. Uncertainties such as China's economic growth, tension in Europe and continued conflicts between Russia and Ukraine persist. Overall, there is still sufficient potential for German and European exporters and enterprises that invest in their competitiveness, and thus there are also opportunities for the Export and project finance business sector.
The Export and project finance business sector aims to sustainably support the German and European economy with project and export financing to maintain and increase competitiveness and internationalisation, as well as to increase its contribution to the group result.
The business sector pursues the continued enhancement of structuring expertise and strengthens collaboration with banks to achieve its strategic aims.
Development of new business was extremely positive in 2015, primarily driven by high demand. However, continuing this unexpected development in the coming years will only be possible to a limited extent. The business sector Export and project finance plans new business volume of EUR 16.2 billion for 2016 in order to stay its growth course.

The **Promotion of developing and transition countries** business sector encompasses the business activities of KfW Development Bank and DEG.

KfW Development Bank faces a particular challenge over the next few years: the Federal Government significantly increased public budget funds (official development assistance – "ODA") for the areas of international environmental and climate protection and development cooperation by EUR 8.3 billion over a four-year period. In addition to the focus on environmental and climate financing, the issues of fragile countries, refugees and food, and rural development are of major importance. The development ministers of the Organisation for Economic Co-operation and Development (OECD) have also agreed on a new definition of ODA. For KfW Development Bank, this means that its development and promotional loans covered by the Federal Government can continue to be counted towards Germany's ODA ratio. National and international development banks such as KfW also play a key role as long-term, countercyclical project finance providers with proven sector and country expertise, which increasingly mobilise private investments for development purposes.
To achieve its strategic objective of "sustainable promotion", KfW Development Bank aims to further position itself with its comparative advantages. Apart from continuing the high new commitment level of development and promotional loans, public budget fund loans are also to be expanded. The aim is to incorporate the resolutions adopted at the development and climate conferences in 2015 into specific approaches for KfW Development Bank and to also develop additional promotional solutions for fragile countries and in consideration of refugees.
KfW Development Bank will also continue to position itself as the main implementer of the Federal Government's environmental and climate protection financing. It will further diversify the business sector, and improve growth potential, particularly in emerging market countries. Measures include the implementation of new innovative promotional approaches (e.g. climate risk insurance) and further development of the climate adaptation portfolio, e.g. in the water sector or urban development. KfW Development Bank advises the Federal Government on structuring international climate financing.
Due to the rapid urbanisation in many parts of the world and the related requirements for efficient urban infrastructure of adequate quality, KfW Development Bank considers urban development a key area for 2016.
Efforts continue to expand targeted cooperation with strategic partners through collaboration with the European Commission on the European Union (EU) blending platform and in developing a collateralisation instrument. The Green Climate Fund, a new major player in climate financing, and the Department for International Development are also relevant cooperation partners. For 2016, KfW Development Bank expects a commitment volume of EUR 6.7 billion.

Privatisation transactions with the German Federal Government

In connection with the Federal Government's **privatisation transactions,** KfW is generally prepared to conduct further privatisation transactions in 2016, taking into account market conditions and the strategic requirements of the Federal Government.

Funding projections

As one of the world's largest non-governmental issuers, KfW issues bonds worldwide and has top-notch credit quality thanks to the explicit, direct guarantee from the Federal Republic of Germany. KfW has achieved a stable position in the capital markets with a well-diversified and long-term funding strategy. It enjoys an excellent reputation among international market participants and can react in a flexible way to changing market conditions. KfW seeks to maintain this position with great care and responsibility.

KfW anticipates a high funding volume over the next two years. KfW expects funding volume via the capital markets to be in a range between EUR 70 billion and EUR 75 billion in 2016.

Its funding strategy is based on reliable and forward-looking action, taking investor needs and market conditions into account. KfW gears its bond supply and wide product range towards demand-side needs and is thus well received by investors around the world. The three most important pillars of KfW's funding strategy remain highly liquid benchmark bonds in euros and US dollars, public bonds and private placements.

Green bond issues in euros and US dollars were continued in 2015 as part of the bank's sustainability strategy in the Capital markets sector and were offered for the first time in Swedish kronor, Australian dollars and pounds sterling. A further impetus to funding was provided through an inaugural issuance in the New Zealand Kauri bond market. Further activities are planned for 2016.

Earnings projections

In the current group **earnings projections** for 2016, KfW expects Consolidated profit (before IFRS effects from hedging) of slightly under EUR 1 billion based on anticipated macroeconomic conditions. The expected result is thus at the lower end of the strategic objectives range.

Contributions from Net interest income and Net commission income (in each case before promotional activity) are at a high level similar to that of previous years; however, the negative effects due to the ongoing low interest environment are increasingly noticeable. Thus, projected interest rate margins from the lending business of around the same level as in 2015 will likely be offset by declining results from interest rate and liquidity maturity transformation.

Expected Administrative expense for 2016 exceed those of 2015. This increase is expected to be largely due to cost increases from modernisation, growth in the foreign business sectors and personnel cost increases associated with collective agreements.

This also raises the expected cost-income ratio before promotional activity compared with the previous year.

The projected standard risk costs, which as a long-standing historical average are considerably higher for 2016 than the actual risk provisions for lending business in 2015, will have a negative effect on earnings. KfW expects its promotional activity to increase again in 2016.

KfW's business model is oriented towards the medium to long term; income from the lending business (interest rate margins and net commission income) in particular is very stable. **Opportunities and risks** for consolidated profit may arise above all for the treasury result from deviating market conditions in conjunction with KfW's positioning. In addition, opportunities and risks may arise for the valuations as a result of risk provisions that may vary from those planned as well as a result of temporary effects on results arising from the valuation of economically effective hedges (IFRS-related effects on results). The latter have no economic basis and therefore are not explicitly included in KfW's planning.

HR strategy/development of workforce

Adequate staffing is a key requirement for implementing KfW's business strategy.

Short and medium-term planning at KfW is complemented by strategic personnel planning for the future. This is currently being developed for major strategic projects in particular with the aim of early identification of necessary changes in terms of professional skills and to implement measures to accommodate these effects.

In view of the modernisation projects, the development of more professional approaches and increased efficiency currently under way at KfW (including SAP financial architecture, customer communication and process efficiency), KfW's **HR development,** with its core function of professional and personal qualification of all employees, plays an important role. This is supported by a comprehensive programme of seminars, language lessons, workshops and individual departmental and team training, as well as practical observation training and job rotations, offered both in-house and externally. A new skills model for the selection and development of managers has been developed, and established instruments like shadowing, assessment of potential and mentoring have been further developed. With its professionalised and expanded change management programme, HR provides support for the numerous intensive change processes and major projects under way at the bank.

KfW supports its staff in terms of gender balance, particularly by reconciling career and family life and offering flexible working hours.

Declaration of compliance

The Executive Board and Board of Supervisory Directors of KfW have resolved to recognise the principles of the Federal Public Corporate Governance Code *(Public Corporate Governance Kodex des Bundes – "PCGK")* and apply them at KfW. The Corporate Governance Report of KfW contains the declaration of compliance with the recommendations of the PCGK.

KfW Financial statements 2015

Financial statements

Balance Sheet of KfW as of 31 December 2015

Assets

	see note no.	31 Dec. 2015				31 Dec. 2014
		EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in millions
Cash reserves						
a) Cash in hand				245		0
b) Balances with central banks				459,650		786
of which: with Deutsche Bundesbank		*459,650*				*(786)*
					459,895	**786**
Loans and advances to banks	**(2)**					
a) Due on demand				7,518,730		3,756
b) Other loans and receivables				298,559,704		303,712
					306,078,434	**307,468**
Loans and advances to customers	**(3)**				**105,990,522**	**93,325**
of which: secured with mortgages		*0*				*(0)*
Municipal loans		81,118,948				(72,127)
Bonds and other fixed-income securities	**(4), (10)**					
a) Money market paper						
aa) Of public sector issuers			0			0
of which: eligible as collateral with Deutsche Bundesbank		*0*				*(0)*
ab) Of other issuers			1,148,823	1,148,823		1,141
of which: eligible as collateral with Deutsche Bundesbank		*34,978*				*(25)*
b) Bonds and debentures						
ba) Of public sector issuers			6,182,268			5,876
of which: eligible as collateral with Deutsche Bundesbank		*6,149,522*				*(5,863)*
bb) Of other issuers			21,055,371	27,237,639		20,403
of which: eligible as collateral with Deutsche Bundesbank		*17,149,480*				*(16,774)*
c) KfW's own bond issuers				9,717,380		15,260
Nominal amount		10,316,110				*(15,786)*
					38,103,842	**42,680**

Assets

	see note no.	31 Dec. 2015				31 Dec. 2014
		EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in millions
Equity investments	**(5), (7), (8), (10)**				**985,287**	**878**
of which: in banks		*42,964*				*(43)*
of which: in financial services institutions		*0*				*(0)*
Shares in affiliated companies	**(6), (7), (10)**				**3,257,461**	**3,105**
of which: in banks		*429,000*				*(307)*
of which: in financial services institutions		*0*				*(0)*
Assets held in trust	**(9)**				**16,556,876**	**17,468**
of which: loans held in trust		*13,100,923*				*(14,118)*
Intangible assets	**(10)**					
a) Concessions, industrial property rights and similiar rights					112,894	83
Property, plant and equipment	**(10)**				**862,300**	**860**
Other assets	**(11)**				**19,180,903**	**10,687**
Deferred charges	**(12)**				**1,590,278**	**1,858**
Special loss account consisting of provisions under Section 17 (4) of the D-Mark Balance Sheet Act					**26,412**	**26**
Total assets					**493,205,104**	**479,224**

Liabilities and equity

	see note no.	31 Dec. 2015				31 Dec. 2014
		EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in millions
Liabilities to banks	**(13)**					
a) Due on demand				21,177,796		15,172
b) With agreed terms or periods of notice				6,143,734		6,865
					27,321,530	**22,037**
Liabilities to customers	**(14)**					
Other liabilities						
a) Due on demand			1,017,479			612
b) With agreed terms or periods of notice			7,698,283	8,715,762		8,658
					8,715,762	**9,270**
Certificated liabilities	**(15)**					
Bonds issues				412,308,054		402,256
					412,308,054	**402,256**
Liabilities held in trust	**(16)**				**16,556,876**	**17,468**
of which: Loans held in trust		*13,100,923*				*(14,118)*
Other liabilities					**71,717**	**139**
Deferred income	**(17)**				**3,233,648**	**3,877**
Provisions	**(18)**					
a) Provisions for pensions and similar obligations				1,092,634		977
b) Other provisions				1,122,604		1,152
					2,215,238	**2,129**
Obligatory charges under the D-Mark Balance Sheet Act					**349**	**0**
Subordinated liabilities	**(19)**				**300,000**	**2,247**
Fund for general banking risks					**600,000**	**500**

Liabilities and equity

	see note no.	31 Dec. 2015				31 Dec. 2014
		EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in millions
Equity	**(20)**					
a) Called in capital						
Subscribed capital			3,750,000			3,750
less uncalled outstanding contributions			(450,000)	3,300,000		(450)
b) Capital reserve				8,446,989		7,197
of which: promotional reserves from the ERP Special Fund		*7,150,000*				*(5,900)*
c) Reserve from the ERP Special Fund				1,190,752		1,191
d) Retained earnings						
da) Statutory reserve under Article 10 (2) of the KfW Law			1,875,000			1,875
db) Special reserve under Article 10 (3) of the KfW Law			7,021,582			5,690
dc) Special reserve under Section 17 (4) of the Balance Sheet Act			47,607	8,944,189		48
					21,881,930	**19,301**
Total liabilities and equity					**493,205,104**	**479,224**
Contingent liabilities	**(21)**					
a) On guarantees				2,328,337		3,297
					2,328,337	**3,297**
Other commitments	**(22)**					
a) Irrevocable loan commitments				55,799,775		53,818
					55,799,775	**53,818**

Income statement of KfW

for the period from 1 January – 31 December 2015

	see note no.	1 January–31 December 2015				2014
		EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in millions
Interest income from						
a) Lending and money market transactions	(23)		9,087,802			9,447
b) Fixed-income securities and bonds			168,167			281
				9,255,969		9,729
Interest expense	**(23)**			**7,221,425**		7,798
					2,034,544	1,931
Current income from						
a) Shares and other non-fixed income securities				806		1
b) Equity investments				17,094		16
c) Shares in subsidiaries				0		0
					17,900	17
Commisions and similar service charges earned				**381,893**		455
Commissions and similar charges payable				**220,976**		198
					160,917	257
Other operating income	**(24)**				**225,359**	117
General administrative expenses						
a) Personnel expense						
aa) Salaries and wages			379,786			357
ab) Social security contributions and expense for pension provision and other employee benefits			154,051	533,837		152
of which: for pensions		*103,718*				*(105)*
b) Other administrative expenses				402,125		392
					935,962	901
Depreciation, amortisation and impairment of property, plants and equipment and intangible assets	**(10)**				**47,016**	44
Other operating expense	**(24)**				**33,965**	40

	see note no.	1 January–31 December 2015				2014
		EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in millions
Impairments of receivables and certain securities and additions to provisions for loan losses					**0**	344
Income from the reversals of impairment losses on receivables and certain securities and reversals of provisions for loan losses					**14,017**	0
Income from reversals of write-downs of equity investments, shares in subsidiaries and securities held as fixed assets					**19,684**	4
Additions to (-) fund for general banking risks	**(25)**				**–100,000**	–100
Result from ordinary activities					**1,355,478**	897
Taxes on income					**24,167**	13
Profit					**1,331,311**	883
Allocation to retained earnings						
to the special reserve under Article 10 (3) of the KfW Law	(20)		–1,331,311			–883
				–1,331,311		–883
Net retained profits					**0**	0

Notes

The financial statements of KfW have been prepared in accordance with the requirements of the German Commercial Code *(Handelsgesetzbuch – "HGB")*, the German Accounting Regulation for Banks and Financial Services Institutions *(Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV")* and the Law Concerning KfW (KfW Law). The special provisions of the D-Mark Balance Sheet Act *(D-Mark-Bilanz-Gesetz – "DMBilG")* have also been observed. The KfW balance sheet and income statement presentation of items was adjusted as follows: Equity was expanded to include the special items "Promotional reserves from the ERP Special Fund" as a sub-item of Capital Reserve, "Reserves from the ERP Special Fund", and its "Contractual allocation of interest" and the three sub-items in Retained earnings: "Statutory reserve under Article 10 (2) KfW Law" and "Special reserve under Article 10 (3) KfW Law" and "Special reserve under Section 17 (4) of the D-Mark Balance Sheet Act". Disclosures on balance sheet items which may be provided either in the balance sheet or in the notes are provided in the notes.

1) Accounting policies

Cash in hand, Loans and advances to banks and customers, Investments, Shares in subsidiaries and Other assets have been shown at cost, notional amount or lower fair value. Differences between notional amounts and lower paid out amounts of receivables, which are similar in nature to interest, have been included in Deferred income and recognised over the term through profit or loss in Interest income.

The interest rate reductions are recognised in the income statement as they arise, at their present value at the time the loan terms and conditions are determined. These transactions are measured by applying the parameters of the general promotional loan market the first time they are recorded at fair value. Consequently, these transactions result in interest rates below the market rate, which have a negative impact on KfW's earnings position.

The difference that normally results upon loan commitment – present value of the nominal scheduled interest rate reductions during the first fixed interest rate period – is recognised in profit or loss with a negative impact on interest expense and accounted for as an adjusting item in Loans and advances under the balance sheet items Loans and advances to banks or Loans and advances to customers. The adjustment to the carrying amount is amortised in Net interest income using the effective interest rate method. In the event of unscheduled repayment in full, this will be recognised in profit or loss under Interest income. Differences that relate to irrevocable loan commitments are reported in Provisions. Changes to the portfolio are offset via the adjusting items of already disbursed promotional loans recognised on the assets side.

The securities held as a liquidity reserve are valued strictly at the lower of cost or market *(strenges Niederstwertprinzip)*, where they are not hedged. For securities held as fixed assets, the modified lower of cost or market principle *(gemildertes Niederstwertprinzip)* has generally been applied. In some cases, hedging relationships are recognised for securities and their interest hedges (primarily interest rate swaps) in accordance with Section 254 HGB. No securities have been allocated to the trading book. Reversals of impairment losses have been accounted for in accordance with the statutory requirements. Structured securities with embedded derivatives are accounted for as one unit and are valued strictly at the lower of cost or market value.

Property, plant and equipment and intangible assets are reported at cost, reduced by straight line depreciation/amortisation over their expected useful life. Impairment is recognised as required. Minor fixed-assets items are combined to form a collective item and are depreciated/amortised over a period of five years using the straight-line method. The bank opted not to recognise internally generated intangible fixed assets.

Liabilities are recognised at their settlement amount; differences between agreed higher repayment amount and issue amount are recognised in the item Deferred charges. Zero-coupon bonds issued are recognised at their current redemption amount.

Provisions for pensions and similar commitments were valued in accordance with actuarial principles on the basis of the 2005 G mortality tables by Dr Klaus Heubeck. The projected unit credit method with the following parameters was applied to KfW's calculations for all active staff members.

	31 Dec. 2015
Actuarial discount rate (7-year average interest rate)	3.89%
Rate of salary increases (depending on pay scale)	2.20%
Rate of pension increases (depending on pension scheme)	1.00% to 2.50%
Rate of staff turnover	1.50%

Other provisions are reported in the amount of the estimated expenditure required to settle the obligation as dictated by prudent business judgment, taking future price/cost increases into account. Provisions with a remaining life of more than one year are discounted with the market interest rate published by the Deutsche Bundesbank.

Risks, primarily for lending business as a result of the structure of KfW's business, were sufficiently addressed through impairment and provisions. KfW distinguishes between significant receivables (volume from each individual borrower of EUR 1 million or more) and non-significant receivables. For significant receivables, an individual assessment of credit exposure regarding future payments is undertaken when there are indicators of impairment. The calculation takes into account the scope and value of the collateral as well as the political risk. For non-significant receivables, a general risk provision is created based on homogenous sub-portfolios. Latent credit and transfer risks are covered by recognising portfolio-based impairments for the portion of the portfolio that is not already individually impaired. For non-performing loans, interest income is generally accrued based on the probability of collection. Additions and usage are recognised net in the item Impairment of receivables and certain securities and additions to provisions for loan losses or Income from the reversals of impairment losses on receivables and certain securities and reversals of provisions for loan losses. The same applies to unrealised and realised results from equity investments, shares in subsidiaries and securities treated as fixed assets. The possibility of netting in the income statement in accordance with Section 340c (2) and Section 340f (3) HGB has been utilised.

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 average spot exchange rate. The bank applies the principal of special cover in accordance with Section 340h HGB in conjunction with Section 256a HGB.

The valuation of interest-related transactions in the banking book (Refinanzierungsverbund) follows the management of interest rate fluctuation risk at KfW. The principle of prudence is taken into account by creating a provision in accordance with Section 340a in conjunction with Section 249 (1) sentence 1, 2nd alternative HGB for any excess obligations resulting from the valuation of the interest-related banking book. The requirements of the statement of the Banking Committee of the German Institute of Auditors *(Institut der Wirtschaftsprüfer – "IDW")* on the loss-free valuation of the banking book *("BFA 3")* are taken into account. To determine any excess obligation, KfW calculates the net value of all discounted future period results of the banking book. In addition to net interest and relevant commission income, this includes the associated administrative costs as well as risk costs in the amount of expected losses. No provision for contingent losses was required during the reporting year.

Notes to the assets

2) Loans and advances to banks

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
This item includes		
Loans and advances		
To affiliated companies	23,659	21,532
To companies in which KfW holds a stake	29	32
Without underwriting borne by the on-lending bank	1,769	2,103
Subordinated loans	1,949	1,866
Due		
On demand	7,519	3,756
Within 3 months	23,909	31,741
Between 3 months and 1 year	33,105	34,190
Between 1 year and 5 years	123,553	123,952
In more than 5 years	114,186	109,799
Accrued interest	3,808	4,030
Total	**306,078**	**307,468**

An adjusting item in the amount of EUR 1,588 million (previous year: EUR 1,794 million) is reported under Loans and advances to banks due to the interest rate being below the market rate for promotional loans disbursed with additional promotional support in the form of interest rate reductions impacting KfW's earnings.

3) Loans and advances to customers

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
This item includes		
Loans and advances		
To affiliated companies	38	13
To companies in which KfW holds a stake	0	0
Subordinated loans	3,077	3,631
Due		
With no fixed maturity	11,413	11,413
Within 3 months	14,889	6,614
Between 3 months and 1 year	6,211	7,494
Between 1 year and 5 years	30,616	26,923
In more than 5 years	42,528	40,494
Accrued interest	333	387
Total	**105,991**	**93,325**

An adjusting item in the amount of EUR 174 million (previous year: EUR 204 million) is reported under Loans and advances to customers due to the interest rate being below the market rate for promotional loans disbursed with additional promotional support in the form of interest rate reductions impacting KfW's earnings.

4) Bonds and other fixed-income securities

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Due within the following year		
Money market paper, bonds and notes	7,705	6,790
Notional amount	*7,492*	*6,697*
Own bond issues	572	5,754
Notional amount	*572*	*5,740*
Total	**8,277**	**12,544**
Notional amount	*8,063*	*12,437*
Listed securities	36,443	40,931
Unlisted securities	1,660	1,749
Marketable securities	**38,104**	**42,680**
Subordinated assets	13	20
Repurchase agreements	24	375

5) Equity investments

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Listed securities	0	0
Unlisted securities	48	46
Marketable securities	**48**	**46**

6) Shares in affiliated companies

As in the previous year, this item does not contain any listed securities.

7) Disclosures on shareholdings

	Name and domicile of company, where KfW holds at least 20 % of capital	Share held	Equity	Profit for the year
		in %	EUR in thousands	EUR in thousands
1	DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne[1)]	100.0	2,271,631	86,495
2	KfW IPEX-Beteiligungsholding GmbH, Frankfurt am Main[1)]	100.0	1,590,133	4,163
3	KfW Beteiligungsholding GmbH, Bonn[1)]	100.0	411,505	15,912
4	Interkonnektor GmbH, Frankfurt am Main[1)]	100.0	12,580	–1,714
5	AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG, Munich[2)]	47.5	90,955	2,233
6	Deutsche Energie-Agentur GmbH (dena), Berlin[2)]	26.0	5,781	16
7	Berliner Energieagentur GmbH, Berlin[2)]	25.0	4,956	411
8	Mittelstandsfonds Hamburg MHH GmbH & Co. KG, Hamburg[2)]	24.9	1,812	5,174
9	eCapital Technologies Fonds II GmbH & Co. KG, Münster[2)]	24.8	23,907	–496
10	Microfinance Enhancement Facility S. A., Luxembourg, Luxembourg[3)]	20.0	7,227	–584

	Name and domicile of company, where KfW holds at least 5 % of voting rights	Share of voting rights	Equity	Profit for the year
		in %	EUR in thousands	EUR in thousands
1	Procredit Holding AG & Co KGaA, Frankfurt am Main[4)]	13.6	458,617	48,151
2	CJSC AccessBank Tajikistan, Dushanbe, Tajikistan[1)]	9.1	6,136	–2,654
3	Finca Microfinance Holding Company LLC, Delaware, USA[2)]	9.0	279,108	2,767
4	AccèsBanque Madagascar SA, Antananarivo, Madagascar[2)]	7.3	7,582	1,387
5	AB Microfinance Bank Nigeria Ltd., Lagos, Nigeria[2)]	5.9	11,718	2,000

[1)] Most recent available financial statements 31 Dec. 2015
[2)] Most recent available financial statements 31 Dec. 2014
[3)] Most recent available financial statements 30 June 2015
[4)] Most recent available financial statements 30 September 2015

8) Shares in investment funds

		Share of total assets	Carrying amounts	Dividend payments	Redeemable daily
		in %	EUR in thousands	EUR in thousands	
1	Galaxy S. à. r. l. SICAR	20.0	2,293	0	No
2	Microfinance Enhancement Facility SA, SICAV-SIF	19.8	102,416	3,680	No
3	Europäischer Fonds für Südosteuropa SA SICAV-SIF	19.6	164,793	6,007	No
4	Green for Growth Fund, Southeast Europe SA, SICAV-SIF	17.8	55,172	1,193	No
5	Global Climate Partnership Fund, SA SICAV-SIF	17.6	40,874	731	No
6	Africa Agriculture and Trade Investment Fund SA SICAV-SIF	16.5	20,867	303	No
7	Rural Impulse Fund II S. A., SICAV-SIF	16.5	9,012	0	No
8	Advans SA SICAR	14.9	7,850	0	No
9	Fondaco società di gestione del risparmio S. p. A	14.6	12,619	0	No
10	2020 European Fund for Energy, Climate Change and Infrastructure SICAV	14.1	39,150	0	No
11	Sanad Fund for MSME S. A., SICAV-SIF	13.2	18,000	71	No
12	MIFA Debt Fund S. A., SICAV-SIF	11.3	13,790	617	No
13	DWM incl. Finance Equity Fund II	10.0	1,686	0	No

The shares in investment funds primarily serve to strengthen and support projects relating to climate protection, renewable energy and infrastructure expansion and whose main aim

is promoting public interests. For this reason, the shares are reported under “Equity investments” and not under “Shares and other non-fixed income securities”. The limitations imposed on daily redemptions are due to the funds’ long-term orientation and the specific investors involved. These funds are an essentially illiquid investment vehicle.
The investments are not impaired and an evaluation process takes place regularly.

9) Assets held in trust

	31 Dec. 2015	31 Dec. 2014
	EUR in millions	EUR in millions
Loans and advances to banks	994	1,107
Loans and advances to customers	12,093	13,011
Investments	3,470	3,350
Total	**16,557**	**17,468**

10) Fixed assets

Statement of changes in fixed assets as of 31. Dec 2015

	Acquisition costs/ production costs[3]	Additions	Disposals	Transfers	Reversal of impairments	Depreciation, amortisation and impairments		Net carrying amount 31 Dec. 2015	Net carrying amount 31 Dec. 2014
		Changes[2]				accumulated	2015		
	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Equity investments[1]		107,465						985,287	877,822
Shares in affiliated companies[1]		152,799						3,257,461	3,104,662
Securities held as fixed assets[1]		1,163,320						26,929,743	25,766,423
Intangible assets	107,884	39,994	1,753	0	0	33,230	10,004	112,894	82,905
Property, plant and equipment[4]	1,125,111	40,311	5,446	0	0	297,676	37,012	862,300	859,515
Total								**32,147,686**	**30,691,327**

[1] The bank exercised the option under Section 34 (3) RechKredV to consolidate Securities and investments.
[2] Including price changes
[3] The simplification under Section 31 (3) of the Introductory Act to the German Commercial Code *(Einführungsgesetz zum Handeslgesetzbuch – “EGHGB”)* has been applied.
[4] Of which as at 31 Dec. 2015 – Total amount of land and buildings used for the bank’s activities EUR 1,006,162 thousand
– Total amount of office furniture and equipment EUR 118,949 thousand

Bonds and other fixed-income securities, as well as shares and other non-fixed income securities, intended for permanent use for business activities and therefore usually held until maturity, have been included with the securities held as fixed assets. They are presented separately from current assets and are valued according to the modified lower of cost or market value principle.
The carrying amount of the marketable securities in fixed assets not valued at the lower of cost or market value was EUR 26,903 million as of 31 December 2015. This includes investments in securities, whose carrying amount of EUR 10,867 million was higher than the market value of EUR 10,850 million. Since these securities are to be held until maturity, no impairment loss was recognised.

11) Other assets

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Main items:		
Adjusting item from the currency translation of derivatives	18,569	10,036
Amount receivable from the Federal Agency for Special Tasks associated with Unification	604	606

Other assets mainly comprises the adjustment item from the currency conversion of derivatives used in the context of management of the foreign currency exposure. The amount receivable from the Federal Agency for Special Tasks Associated with Unification is reported due to the transfer to KfW of the insurance business of the State Insurance Company of the GDR in liquidation *(Staatliche Versicherung der DDR in Abwicklung – "SinA")*. Actuarial provisions have thus been set up in the same amount.

12) Deferred charges

The line item Deferred charges includes the differences between the repayment amount and the lower issuing amount for liabilities in the amount of EUR 770 million (previous year: EUR 825 million).

Notes to the liabilities and equity

13) Liabilities to banks

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
The item includes:		
Liabilities to		
Affiliated companies	63	107
Companies in which KfW holds a stake	0	0
Due		
On demand	21,178	15,172
Within 3 months	1,026	1,087
Between 3 months and 1 year	71	57
Between 1 year and 5 years	1,141	1,242
In more than 5 years	993	1,118
Accrued interest	2,913	3,361
Total	**27,322**	**22,037**

14) Liabilities to customers

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
The item includes:		
Liabilities to		
Affiliated companies	373	329
Companies in which KfW holds a stake	0	0
Due		
On demand	1,017	612
Within 3 months	876	1,964
Between 3 months and 1 year	1,053	184
Between 1 year and 5 years	2,452	2,641
In more than 5 years	3,228	3,778
Accrued interest	90	91
Total	**8,716**	**9,270**

15) Certificated liabilities

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
The sub-item – Bonds issued – includes		
Certificated liablitites to		
Affiliated companies	1,988	1,345
Companies in which KfW holds a stake	0	0
Due within the following year	109,223	100,771

16) Liabilities held in trust

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Liabilities to banks	0	0
Liabilities to customers	16,557	17,468
Total	**16,557**	**17,468**

17) Deferred income

Deferred income includes discounts on receivables totalling EUR 633 million (previous year: EUR 929 million).

18) Provisions

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Main items:		
Provisions for pensions and similar obligations	1,093	977
Actuarial provisions in connection with the transfer to KfW of the insurance business of SinA	604	606
Provisions for covering future interest charges resulting from the transfer of the ERP Special Fund	56	80
Irrevocable loan commitments below market rate	47	53

For provisions with a remaining term of more than one year and a carrying amount as of 31 December 2015 of EUR 66 million, KfW exercised the option to retain the carrying amount without discounting in accordance with Section 67 (1), Sentence 2, of the Introductory Act to the German Commercial Code *("EGHGB")*. The value after discounting at the applicable Bundesbank interest rate totals EUR 63 million, yielding excess coverage of EUR 3 million.
Expenses of EUR 46 million resulting from accrued interest on provisions for pensions and similar obligations and other long-term provisions are recognised in Interest expenses.

An adjusting item in the amount of EUR 47 million is reported in financial year 2015 under Other provisions due to the interest rate being below the market rate for promotional loans irrevocably committed with additional promotional support in the form of interest rate reductions impacting KfW's earnings position.

19) Subordinated liabilities

As part of the new legislation governing ERP economic promotion as of 1 July 2007, the ERP Special Fund provided a subordinated loan to KfW in the original amount of EUR 3,247 million. The subordinated loan in the amount of an additional EUR 1,250 million was added to KfW's capital reserve as of 1 January 2015. The ERP Special Fund also waived KfW repayment in the amount of EUR 100 million. KfW repaid a further EUR 597 million to the ERP Special Fund; thus Subordinated liabilities of EUR 300 million were recognised as of the reporting date. The loan consists of three tranches with different fixed-interest periods. The period during which capital is tied up in all tranches ends on 31 December 2027. Interest was charged on the tranches at an average rate of 1.82 % in the financial year 2015 (previous year: 3.45 %).

Interest expenses for the subordinated loan amounted to EUR 5 million in financial year 2015 (previous year: EUR 77 million).

KfW has no obligation to repay the subordinated loan ahead of schedule. In the event of insolvency relating to KfW's assets or liquidation of KfW, the loan redemption claim will not be satisfied until all other non-subordinated creditors have been paid.

20) Equity

	31 Dec. 2014	Net profit for the financial year	Other changes	31 Dec. 2015
	EUR in millions	**EUR in millions**	**EUR in millions**	**EUR in millions**
Subscribed capital	3,750	0	0	3,750
Uncalled contributions outstanding	–450	0	0	–450
Capital reserve	7,197	0	1,250	8,447
Promotional reserves of the ERP Special Fund	*5,900*	*0*	*1,250*	*7,150*
Reserve from the ERP Special Fund	1,191	0	0	1,191
Retained earnings				
a) Statutory reserve under Article 10 (2) of the KfW Law	1,875	0	0	1,875
b) Special reserve under Article 10 (3) of the KfW Law	5,690	1,331	0	7,022
c) Special reserve under Section 17 (4) of the D-Mark Balance Sheet Act	48	0	0	48
Equity	**19,301**	**1,331**	**1,250**	**21,882**

All of the profit for 2015 was allocated to retained earnings. As of year-end 2015, KfW's equity amounted to EUR 21,882 million.

Other required notes to the liabilities and equity

21) Contingent liabilities

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
The item includes:		
Guarantees for synthetic securitisation platform (PROMISE/PROVIDE)	998	1,848
Guarantees for special loans	292	393
Guarantees for aircraft finance	205	229
Guarantees for foreign loans	217	249
Guarantees for export financing	146	150
Guarantees for other financing	470	428
Total	**2,328**	**3,297**
Guarantees to affiliated companies	27	24

Banks can transfer credit risks synthetically from SME loan portfolios or private housing loans to the capital market using the PROMISE/PROVIDE securitisation platforms. As of the balance sheet date, the volume securitised via the platforms totalled EUR 998 million, which was completely secured by credit default swaps or credit-linked certificates.
Risk in this platform business is primarily defined by the quality of the securitised portfolios. In this business KfW transfers tranches with higher probability of default to the capital market and only retains senior tranches with the best credit quality. The default risk faced by KfW is therefore very low.

The risk of other contingent liabilities is reduced to the contracting entity through the existing recourse possibilities and is largely based on that entity's credit rating and the value of any collateral. The bank regularly assesses the risk as part of credit risk monitoring. If there are reasons for a probable outflow of funds, the bank creates individual provisions; general provisions are made for latent risks. Contingent liabilities are reduced by received cash collateral and provisions accounted for as liabilities.

22) Other commitments

Irrevocable loan commitments	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
The item includes:		
Investment finance of Privatkunden- und Kommunalbank/Kreditinstitute	18,661	17,938
Export and project finance	13,697	10,963
Loans for the Promotion of developing and transition countries	10,051	10,112
Investment finance of Mittelstandsbank (SME Bank)	9,930	9,373
Guarantees	288	333
Forward-forward agreements	1,073	2,999
Other loan commitments	2,100	2,100
Total	**55,800**	**53,818**
Irrevocable loan commitments to affiliated companies	2,347	1,674

Irrevocable loan commitments are used for regular credit risk monitoring. If there are specific findings regarding a loss from an expected outflow of funds, the bank creates an individual provision; latent risks are covered through the creation of portfolio provisions. Provisions created for the interest rate reductions in irrevocable loan commitments granted by KfW in the promotional lending business and negatively impacting its earnings position are included.

Notes to the income statement

23) Interest income and Interest expense

The Interest and similar income from loans and advances to banks and customers item comprises EUR 23 million from liabilities-side money-market transactions, while the Interest and similar expense for liabilities to banks and customers comprises EUR 45 million from assets-side money-market transactions. This is due to the negative interest contributions as a result of the low interest rate environment.

24) Other operating income and Other operating expense

In accordance with Sections 277 (5) Sentence 2 and 340h HGB, expenditure on and income from currency conversion have been presented as gross figures in Other operating expense (EUR 7 million, previous year: EUR 3 million) and Other operating income (EUR 12 million, previous year: EUR 4 million). Exchange rate-related value changes of specific impairments denominated in foreign currencies are also presented in Other operating expense or Other operating income.

25) Additions to the fund for general banking risks

The fund for general banking risks was increased by EUR 100 million in financial year 2015 to EUR 600 million. This is recognised in a separate line item in the income statement. The fund for general banking risks aims to protect the bank against general business-specific risks.

26) Auditor's fees

KfW has exercised the option under Section 285 No. 17 HGB and refers to the breakdown of auditor's fees in KfW Group's consolidated financial statements.

27) Geographical markets

As KfW has no foreign branch offices, the total amounts reported under certain income line items in accordance with Section 34 (2) No. 1 RechKredV were not broken down by region.

Other required notes

28) Assets and debts in foreign currencies

	31 Dec. 2015 EUR in millions	31 Dec. 2014 EUR in millions
Assets in foreign currencies	52,997	44,648
Debts in foreign currencies	240,618	227,250

29) Other financial commitments

The bank has remaining payment obligations totalling EUR 445 million in connection with equity finance operations.
It also has remaining payment obligations to affiliated companies totalling EUR 165 million as of 31 December 2015.

In isolated cases, KfW staff or third parties appointed by KfW take on executive body functions at companies in which KfW holds equity investments or with which it has another relevant creditor relationship. The risks arising therefrom are covered by the directors and officers liability insurance policy of the respective company. Liability risks may arise for KfW in the event that such insurance coverage is not in place.

30) Derivatives reporting

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

1. Interest rate forward transactions/derivative products
   - Interest swaps
   - Interest rate options, swaptions
   - Caps and floors

2. Currency-related forward transactions/derivative products
   - Cross-currency swaps
   - FX swaps
   - Spot FX deals
   - Currency forwards

3. Credit derivatives
   - Single name credit default swaps

The following disclosure of derivatives transactions is in accordance with the requirements of Section 285 No. 19 HGB and Section 36 RechKredV. It discloses the positive and negative fair values of the derivatives positions as of 31 December 2015.

All types of contracts are marked to market. In cases where market prices were not available for derivatives instruments, fair values were established by means of market parameters based on generally accepted option price models and present value estimates.

Purchased and written options are presented as Other assets or Other liabilities at the amount paid as premiums.

Volume

	Notional amounts	Notional amounts	Positive fair values	Negative fair values
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2015
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Contracts with interest rate risks				
Interest swaps	484,928	470,826	18,344	20,175
Interest options				
thereof purchases	*0*	*0*	*0*	*0*
thereof sales	*0*	*0*	*0*	*0*
Caps and floors[1]	0	833	0	0
Total	**484,928**	**471,659**	**18,344**	**20,175**
Contracts with currency risks				
Cross-currency swaps	206,027	195,136	25,276	4,144
FX swaps	32,712	25,328	387	288
Currency forwards	164	133	1	1
Spot FX deals	0	0	0	0
Total	**238,902**	**220,597**	**25,665**	**4,433**
Credit derivatives[2]				
thereof purchases	*10*	*0*	*0*	*0*
thereof sales	*10*	*0*	*0*	*0*
Total	**20**	**0**	**0**	**0**

[1] Only caps and floors which are traded on a stand-alone basis
[2] In this case single name credit default swaps

Remaining life

Notional amounts	Interest risks[1]		Currency risks		Credit derivatives[2]	
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2014
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Due						
Within 3 months	14,608	13,483	40,394	30,709	0	0
Between 3 months and 1 year	60,386	50,399	38,306	33,567	20	0
Between 1 year and 5 years	227,766	220,356	114,063	107,114	0	0
In more than 5 years	182,167	187,421	46,140	49,207	0	0
Total	**484,928**	**471,659**	**238,902**	**220,597**	**20**	**0**

[1] Derivatives financial instruments are shown without embedded derivatives.
[2] In this case single name credit default swaps

Counterparties

	Notional amounts	Notional amounts	Positive fair values	Negative fair values
	31 Dec. 2015	31 Dec. 2014	31 Dec. 2015	31 Dec. 2015
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OECD banks	719,379	687,161	43,756	24,223
Banks outside the OECD	25	26	0	3
Other counterparties	134	174	27	2
Public authorities	4,313	4,897	226	381
Total	**723,850**	**692,258**	**44,009**	**24,609**

31) Hedging relationships within the meaning of Section 254 HGB

The following section describes hedging relationships within the meaning of Sections 254 and 285 No. 23 HGB.

The following table details the volume of securities held as fixed assets and as a liquidity reserve (current assets), which are hedged against interest rate fluctuation risks as of the reporting date.

	Carrying amounts	Notional amounts	Fair values
	EUR in millions	EUR in millions	EUR in millions
Securities held as fixed assets			
Bonds and other fixed-income securities	18,480	17,998	18,702
Securities held as liquidity reserves			
Bonds and other fixed-income securities	4,971	4,643	5,830
Total	**23,451**	**22,641**	**24,532**

KfW uses derivatives to hedge open positions only.

The option to apply hedge accounting for economic hedges is exercised with KfW's own holdings of securities as designated hedged items. The net hedge presentation method is applied to the effective portion of the hedge.

A portion of the securities held as fixed assets is hedged on the basis of micro valuation units against interest rate fluctuation risks by combining fixed-income securities and hedging transactions (primarily interest rate swaps).
Thanks to identical conditions of the hedged item and hedging instrument, the offsetting effect is demonstrated both prospectively and retrospectively using the critical terms match method.
Through the use of the modified lower of cost or fair value principle for the fixed assets, only permanent impairment losses are recognised in the income statement.

The fixed-income securities held as a liquidity reserve are also hedged against interest rate fluctuation risks using micro valuation units (primarily interest rate swaps). Any expense related to the ineffective portion of the hedge is recognised in the income statement. In addition, hedging relationships are designated as part of the repurchase of own issues, with matching certificated liabilities as hedging instruments.

Due to the negative correlation of fair value changes and the similar risks of the hedged item and the hedging instrument, changes in fair value and in cash flows of hedged items and hedging instruments largely offset one another as of the reporting date. Considering the long-term designation of the hedging relationships, the offsetting effects are expected to continue almost fully until the hedging relationships mature.
In addition to hedging relationships pursuant to Section 254 HGB, derivative financial instruments used to hedge interest rate risks in the banking book and the interest-bearing hedged items are included in asset liability management. KfW manages the interest margin or fair value of all interest-bearing transactions in the banking book as a whole. Hedging relationships are also included in the loss-free valuation of the interest book *(BFA 3)*.

32) Loans in the name of third parties for third party account

Loans in the name of third parties and for third party account totalled EUR 7,268 million as of 31 December 2015.

33) Employees

The average number of employees including temporary staff but excluding the Executive Board and trainees is calculated based on the levels at the end of each quarter of the reporting year.

	2015	2014
Employees (female)	2,265	2,152
Employees (male)	2,373	2,231
Staff not covered by collective agreements	*3,146*	*2,986*
Staff covered by collective agreements	*1,492*	*1,397*
Total	**4,638**	**4,383**

34) Compensation and loans to members of the Executive Board and the Board of Supervisory Directors

	Salary	Variable compensation	Other compensation[1]	Total
Annual compensation 2015	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
Dr Ulrich Schröder (Chief Executive Officer)	740.5	250.0	88.4	1,078.9
Dr Günther Bräunig	552.6	0.0	34.9	587.5
Dr Ingrid Hengster	521.4	0.0	40.2	561.6
Dr Norbert Kloppenburg	552.6	0.0	44.6	597.2
Dr Edeltraud Leibrock[2]	412.7	0.0	91.0	503.7
Bernd Loewen	582.1	0.0	34.9	617.0
Total	**3,361.9**	**250.0**	**334.0**	**3,945.9**

[1] Other compensation mostly comprises the use of company cars, security expenses and insurance premiums and taxes and social security payments of these amounts. Remuneration for supervisory board mandates in subsidiaries is also included.
[2] Dr Edeltraud Leibrock until 30 September 2015

Compensation to members of the Board of Supervisory Directors totalled EUR 192.4 thousand. This amount is broken down as follows:
Compensation for the members of the Board of Supervisory Directors is EUR 5 thousand p. a. plus EUR 0.6 thousand p. a. per membership on a Board of Supervisory Directors committee, paid on a pro-rata basis for memberships that commence during the year. Compensation to members of the Federal Government who are members of the Board of Supervisory Directors pursuant to Article 7 (1) No. 2 of the KfW Law was set at EUR 0 for financial year 2015. Moreover, compensation for the Chairman of the Board of KfW Supervisory Directors and his deputies was also set at EUR 0.

Provisions in the amount of EUR 45,280 thousand were set up as of 31 December 2015 for obligations under pension agreements for retired members of the Executive Board and their surviving dependents. The regular compensation totalled EUR 4,194 thousand. No loans exist to members either of the Executive Board or of the Board of Supervisory Directors.

35) Group affiliation

KfW is included in the consolidated financial statements of KfW Group, Frankfurt am Main, as of 31 December 2015. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and disclosed in German in the electronic Federal Gazette *(Bundesanzeiger)*.

36) Mandates held by statutory representatives or other employees in supervisory boards of major joint stock companies in accordance with Section 267 (3) HGB

Dr Ulrich Schröder (Chief Executive Officer)
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne
Deutsche Post AG, Bonn
Deutsche Telekom AG, Bonn

Dr Günther Bräunig
Deutsche Pfandbriefbank AG, Munich
Hypo Real Estate Holding AG, Munich

Dr Ingrid Hengster
DB Mobility Logistics AG, Berlin
Deutsche Bahn AG, Berlin
ThyssenKrupp AG, Essen

Dr Norbert Kloppenburg
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne
Hamburger Hafen und Logistik AG, Hamburg
KfW IPEX-Bank GmbH, Frankfurt am Main

Dr Edeltraud Leibrock
DFS Deutsche Flugsicherung GmbH, Langen

Bernd Loewen
KfW IPEX-Bank GmbH, Frankfurt am Main

Dr Lutz-Christian Funke
IKB – Deutsche Industriebank AG, Düsseldorf

Christian Krämer
ProCredit Holding AG & Co.KGaA, Frankfurt am Main

37) The bank's executive bodies

Board of Supervisory Directors

Sigmar Gabriel
Federal Minister for Economic Affairs and Energy
Deputy Chairman
(1 January 2015–31 December 2015)
Chairman
(since 1 January 2016)

Dr Wolfgang Schäuble
Federal Minister of Finance
Chairman
(1 January 2015–31 December 2015)
Deputy Chairman
(since 1 January 2016)

Kerstin Andreae
Member of the German Bundestag
Member appointed by the German Bundestag

Norbert Barthle
Member of the German Bundestag
Member appointed by the German Bundestag
(until 14 April 2015)

Jan Bettink
President of the Association of German Pfandbrief Banks
Representative of the mortgage banks

Anton F. Börner
President of the Federation of German Wholesale, Foreign Trade and Services (BGA)
Representative of trade

Dr Uwe Brandl
President of the Bayerischer Gemeindetag
Representative of the municipalities
(since 1 January 2016)

Hans-Dieter Brenner
Former Chief Executive Officer
Helaba Landesbank Hessen-Thüringen
Representative of industrial credit

Frank Bsirske
Chairman of ver.di – United Services Trade Union
Representative of the trade unions

Jens Bullerjahn
Deputy Minister President
Minister of Finance of the State of Saxony-Anhalt
Member appointed by the German Bundesrat
(until 31 December 2015)

Alexander Dobrindt
Federal Minister of Transport and Digital Infrastructure

Georg Fahrenschon
President of the German Savings Banks Association (DSGV)
Representative of the savings banks

Robert Feiger
Chairman of the Federal Executive Committee of the IG Bauen-Agrar-Umwelt trade union (IG Bau)
Representative of the trade unions

Klaus-Peter Flosbach
Member of the German Bundestag
Member appointed by the German Bundestag

Christian Görke
Deputy Minister President
Minister of Finance of the State of Brandenburg
Member appointed by the German Bundesrat
(since 1 January 2016)

Hubertus Heil
Member of the German Bundestag
Member appointed by the German Bundestag

Monika Heinold
Minister of Finance of the State of Schleswig-Holstein
Member appointed by the German Bundesrat
(since 1 January 2016)

Dr Barbara Hendricks
Federal Minister for the Environment, Nature Conservation, Building and Nuclear Safety

Prof. Dr Hans-Günter Henneke
Managing Member of the Executive Committee of the Federation of German Districts (DLT)
Representative of the municipalities
(until 31 December 2015)

Reiner Hoffmann
Chairman of the German Trade Union Confederation (DGB)
Representative of the trade unions

Gerhard Hofmann
Member of the Board of Managing Directors of the National Association of German Cooperative Banks (BVR)
Representative of the cooperative banks

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

Dr Markus Kerber
Director General of the Federation of
German Industries (BDI)
Representative of industry

Stefan Körzell
Member of the Executive Board of the
German Trade Union Confederation (DGB)
Representative of the trade unions

Dr Matthias Kollatz-Ahnen
Senator of Finance for Berlin
Member appointed by the
German Bundesrat
(6 February 2015–31 December 2015)

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

Dr Gerd Müller
Federal Minister for Economic
Cooperation and Development

Eckhardt Rehberg
Member of the German Bundestag
Member appointed by the
German Bundestag
(since 23 April 2015)

Joachim Rukwied
President of the German Farmers'
Association (DBV)
Representative of agriculture

Dr Nils Schmid
Minister of Finance and Economics
of the State of Baden-Württemberg
Member appointed by the
German Bundesrat

Christian Schmidt
Federal Minister of Food and Agriculture

Andreas Schmitz
Member of the Presidency of the
Association of German Banks (BdB)
Chairman of the Management Board
of HSBC Trinkaus & Burkhardt AG
Representative of the commercial banks

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

Peter-Jürgen Schneider
Minister of Finance of the State
of Lower Saxony
Member appointed by the
German Bundesrat

Holger Schwannecke
Secretary General of the German
Confederation of Skilled Crafts (ZDH)
Representative of the skilled crafts

Erwin Sellering
Minister President of the State of
Mecklenburg-West Pomerania
Member appointed by the
German Bundesrat
(until 31 December 2015)

Dr Markus Söder
Bavarian State Minister of Finance,
Regional Development and
Regional Identity
Member appointed by the
German Bundesrat

Dr Frank-Walter Steinmeier
Federal Minister for Foreign Affairs

Prof. Dr Georg Unland
Saxon State Minister of Finance
Member appointed by the
German Bundesrat
(since 1 January 2016)

Dr Norbert Walter-Borjans
Minister of Finance of the State of
North Rhine-Westphalia
Member appointed by the
German Bundesrat

Dr Martin Wansleben
Chief Executive of the Association of
German Chambers of
Commerce and Industry (DIHK)
Representative of industry

Dr Kai H. Warnecke
Managing Director
Haus & Grund Germany
Representative of the housing industry

Executive Board

Dr Ulrich Schröder
(Chief Executive Officer)

Dr Günther Bräunig

Dr Ingrid Hengster

Dr Norbert Kloppenburg

Bernd Loewen

Dr Stefan Peiss
(since 1 January 2016)

Dr Ulrich Schröder
(Chief Executive Officer)

Dr Günther Bräunig

Dr Ingrid Hengster

Dr Norbert Kloppenburg

Bernd Loewen

Dr Stefan Peiss

Frankfurt am Main, 26 January 2016

Auditor’s report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the annual financial statements, together with the bookkeeping system, and the management report of KfW, Frankfurt am Main, for the business year from 1 January to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law [Handelsgesetzbuch “German Commercial Code”] and supplementary provisions of the Law concerning KfW (KfW Law) are the responsibility of KfW´s Executive Board. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with §317 HGB [Handelsgesetzbuch „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of KfW and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the KfW Law and give a true and fair view of the net assets, financial position and results of operations of KfW in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of KfW’s position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 15 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

Mock
Wirtschaftsprüfer
(German Public Auditor)

Wiechens
Wirtschaftsprüfer
(German Public Auditor)

Imprint

Published by
KfW Group
Communications Department
Palmengartenstrasse 5–9, 60325 Frankfurt am Main, Germany
Phone +49 69 7431 0, Fax +49 69 7431 2944
infocenter@kfw.de, www.kfw.de

Design and realisation
MEHR+ Kommunikationsgesellschaft mbH, Düsseldorf

KfW Group
Palmengartenstrasse 5–9
60325 Frankfurt am Main
Germany
Phone +49 69 7431 0
Fax +49 69 7431 2944
infocenter@kfw.de
www.kfw.de