UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 18-K

For Foreign Governments and Political Subdivisions Thereof

ANNUAL REPORT

of

KfW

(Name of Registrant)

Date of end of last fiscal year: December 31, 2014

SECURITIES REGISTERED
(As of the close of the fiscal year)*

TITLE OF ISSUE	AMOUNT AS TO WHICH REGISTRATION IS EFFECTIVE	NAMES OF EXCHANGES ON WHICH REGISTERED
N/A	N/A	N/A

* The registrant files annual reports on Form 18-K on a voluntary basis.

Name and address of person authorized to receive notices and communications from the Securities and Exchange Commission:

KRYSTIAN CZERNIECKI
Sullivan & Cromwell LLP
Neue Mainzer Strasse 52
60311 Frankfurt am Main, Germany

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EXPLANATORY NOTE

This annual report on Form 18-K for the fiscal year ended December 31, 2014 is filed by KfW, also known as Kreditanstalt für Wiederaufbau, an institution organized under public law of the Federal Republic of Germany (the "Federal Republic"). This annual report on Form 18-K, as subsequently amended, is intended to be incorporated by reference into the prospectus dated November 15, 2013 of KfW and any future prospectus filed by KfW with the Securities and Exchange Commission to the extent such prospectus indicates that it intends this report to be incorporated by reference.

In this annual report, references to "€," "euro" and "EUR" are to the single European currency of the member states of the European Union participating in the euro, including the Federal Republic. References to "U.S. dollars," "$" or "USD" are to United States dollars.

FORM 18-K

1. In respect of each issue of securities of KfW registered, a brief statement as to:

   (a) The general effect of any material modifications, not previously reported, of the rights of the holders of such securities.

   Not applicable.

   (b) The title and the material provisions of any law, decree or administrative action, not previously reported, by reason of which the security is not being serviced in accordance with the terms thereof.

   Not applicable.

   (c) The circumstances of any other failure, not previously reported, to pay principal, interest or any sinking fund or amortization installment.

   Not applicable.

KfW

2. A statement as of the close of the last fiscal year of KfW giving the total outstanding of:

   (a) Internal funded debt of KfW. (Total to be stated in the currency of the registrant. If any internal funded debt is payable in foreign currency, it should not be included under this paragraph (a), but under paragraph (b) of this item.)

   The total principal amount of internal funded debt of KfW, which is defined as euro denominated debt with an initial maturity of more than one year (bonds and other fixed-income securities, other borrowings, and subordinated liabilities), outstanding as of December 31, 2014 was EUR 170.53 billion.

   (b) External funded debt of KfW. (Totals to be stated in the respective currencies in which payable. No statement need be furnished as to intergovernmental debt.)

   For the principal amount of external funded debt of KfW, which is defined as non-euro denominated debt with an initial maturity of more than one year (bonds and other fixed-income securities, other borrowings, and subordinated liabilities), see "KfW—Business—Capital Markets—Funding—Financial-Market Funds—Capital-Market Funding—Information on Issues of Funded Debt of KfW Group (as of December 31, 2014)," p. 31 of Exhibit (d), which is hereby incorporated by reference herein.

3. A statement giving the title, date of issue, date of maturity, interest rate and amount outstanding, together with the currency or currencies in which payable, of each issue of funded debt of KfW outstanding as of the close of the last fiscal year of KfW.

   See "KfW—Business—Capital Markets—Funding—Financial-Market Funds—Capital-Market Funding—Information on Issues of Funded Debt of KfW Group (as of December 31, 2014)," p. 31 of Exhibit (d), which is hereby incorporated by reference herein.

4. (a) As to each issue of securities of KfW which is registered, there should be furnished a breakdown of the total amount outstanding, as shown in Item 3, into the following:

(1) Total amount held by or for the account of KfW.

As of December 31, 2014, KfW held own debt securities (registered and non-registered) in a principal amount of EUR 18.2 billion. The amount of registered debt securities included in these holdings did not exceed 3% of the total volume of outstanding registered debt securities, and thus, is not substantial.

(2) Total estimated amount held by nationals of the Federal Republic; this estimate need be furnished only if it is practicable to do so.

Not practicable.

(3) Total amount otherwise outstanding.

Not applicable.

(b) If a substantial amount is set forth in answer to paragraph (a)(1) above, describe briefly the method employed by KfW to reacquire such securities.

Not applicable.

5. A statement as of the close of the last fiscal year of KfW giving the estimated total of:

(a) Internal floating indebtedness of KfW. (Total to be stated in the currency of the registrant.) The total principal amount of internal floating indebtedness of KfW, which is defined as euro denominated debt with an initial maturity of one year or less (short-term funds), outstanding as of December 31, 2014 was EUR 2.1 billion.

(b) External floating indebtedness of KfW. (Total to be stated in the respective currencies in which payable.) The principal amount of external floating indebtedness of KfW, which is defined as non-euro denominated debt with an initial maturity of one year or less (short-term funds), outstanding as of December 31, 2014 was:

Currency	Principal amount outstanding in currency	Equivalent in euro with conversion rate as of December 31, 2014
AUD	2,217,700,000.00	1,495,515,543.88
CAD	51,000,000.00	36,265,377.23
CNY	3,010,000,000.00	398,564,637.65
GBP	2,085,000,000.00	2,676,851,970.75
JPY	75,909,000,000.00	522,681,264.21
NOK	4,942,300,000.00	546,593,673.97
NZD	321,000,000.00	206,763,285.03
PLN	60,000,000.00	14,040,999.72
SEK	388,000,000.00	41,307,356.55
SGD	59,300,000.00	36,928,633.70
USD	34,213,880,000.00	28,180,446,421.32
Total		34,155,959,164.01

6. Statements of the receipts, classified by source, and of the expenditures, classified by purpose, of KfW for each fiscal year of KfW ended since the close of the latest fiscal year for which such information was previously reported. These statements should be so itemized as to be reasonably informative and should cover both ordinary and extraordinary receipts and expenditures; there should be indicated separately, if practicable, the amount of receipts pledged or otherwise specifically allocated to any issue registered, indicating the issue.

See "Group management report—Economic report—Development of earnings position," "Consolidated financial statements—Consolidated statement of comprehensive income," "Consolidated financial statements—Notes—Accounting Policies," and "Consolidated financial statements—Notes—Notes to the statement of comprehensive income," pp. 9 to 12, 46 to 47, 56 to 73 and 74 to 83 of Exhibit (e), which are hereby incorporated by reference herein.

7. (a) If any foreign exchange control, not previously reported, has been established by the Federal Republic, briefly describe the effect of any such action, not previously reported.

No foreign exchange control not previously reported was established by the government of the Federal Republic during 2014.

(b) If any foreign exchange control previously reported has been discontinued or materially modified, briefly describe the effect of any such action, not previously reported.

No foreign exchange control previously reported was discontinued or materially modified by the government of the Federal Republic during 2014.

8. Brief statements as of a date reasonably close to the date of the filing of this report (indicating such date), in respect of the note issue and gold reserves of the central bank of issue of the registrant, and of any further gold stocks held by the registrant.

Not applicable.

9. Statements of imports and exports of merchandise for each year ended since the close of the latest year for which such information was previously reported. The statements should be reasonably itemized so far as practicable as to commodities and as to countries. They should be set forth in terms of value and of weight or quantity; if statistics have been established in terms of value, such will suffice.

Not applicable.

10. The balances of international payments of KfW for each year ended since the close of the latest year for which such information was previously reported. The statements of such balances should conform, if possible, to the nomenclature and form used in the "Statistical Handbook of the League of Nations." (These statements need to be furnished only if KfW has published balances of international payments.)

Not applicable.

Federal Republic of Germany

2. A statement as of December 31, 2014 giving the total outstanding of:

(a) Internal funded debt of the Federal Republic. (Total to be stated in the currency of the Federal Republic. If any internal funded debt is payable in foreign currency, it should not be included under this paragraph (a), but under paragraph (b) of this item.)

The total amount of internal funded indebtedness of the Federal Republic, which is defined as euro denominated debt with an initial maturity of one year or more, outstanding as of December 31, 2014 was EUR 1,083.92 billion (Source: Bundesministerium der Finanzen, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland zum 31. Dezember 2014, Bundesanzeiger of February 9, 2015). For information on the total debt of the Federal Republic, see "Tables and Supplementary Information—I. Direct Debt of the Federal Government—Summary", p. G-40 of Exhibit (d), which is hereby incorporated by reference herein.

(b) External funded debt of the Federal Republic. (Totals to be stated in the respective currencies in which payable. No statement need be furnished as to intergovernmental debt.)

None.

3. A statement giving the title, date of issue, date of maturity, interest rate and amount outstanding, together with the currency or currencies in which payable, of each issue of funded debt of the Federal Republic outstanding as of the close of the last fiscal year of the Federal Republic.

See "Tables and Supplementary Information—I. Direct Debt of the Federal Government", pp. G-40 to G-44 of Exhibit (d), which are hereby incorporated by reference herein.

4. (a) As to each issue of securities of the Federal Republic which is registered, there should be furnished a breakdown of the total amount outstanding, as shown in Item 3, into the following:

(1) Total amount held by or for the account of the Federal Republic.

Not applicable.

(2) Total estimated amount held by nationals of the Federal Republic; this estimate need be furnished only if it is practicable to do so.

Not practicable.

(3) Total amount otherwise outstanding.

Not applicable.

(b) If a substantial amount is set forth in answer to paragraph (a)(1) above, describe briefly the method employed by the Federal Republic to reacquire such securities.

Not applicable.

5. A statement as of the close of the last fiscal year of the Federal Republic giving the estimated total of:

(a) Internal floating indebtedness of the Federal Republic. (Total to be stated in the currency of the Federal Republic.)

The total amount of internal floating indebtedness of the Federal Republic, which is defined as euro denominated debt with an initial maturity of less than one year, outstanding as of December 31, 2014 was EUR 31.05 billion (Source: Bundesministerium der Finanzen, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland zum 31. Dezember 2014, Bundesanzeiger of February 9, 2015).

(b) External floating indebtedness of the Federal Republic. (Total to be stated in the respective currencies in which payable.)

None.

6. Statements of the receipts, classified by source, and of the expenditures, classified by purpose, of the Federal Republic for each fiscal year of the Federal Republic ended since the close of the latest fiscal year for which such information was previously reported. These statements should be so itemized as to be reasonably informative and should cover both ordinary and extraordinary receipts and expenditures; there should be indicated separately, if practicable, the amount of receipts pledged or otherwise specifically allocated to any issue registered, indicating the issue.

See "The Federal Republic of Germany—Public Finance", pp. G-34 et seq. of Exhibit (d), which are hereby incorporated by reference herein.

7. (a) If any foreign exchange control, not previously reported, has been established by the Federal Republic, briefly describe the effect of any such action, not previously reported.

No foreign exchange control not previously reported was established by the Federal Republic during 2014.

(b) If any foreign exchange control previously reported has been discontinued or materially modified, briefly describe the effect of any such action, not previously reported.

No foreign exchange control previously reported was discontinued or materially modified during 2014.

8. Brief statements as of a date reasonably close to the date of the filing of this report (indicating such date), in respect of the note issue and gold reserves of the central bank of issue of the Federal Republic, and of any further gold stocks held by the Federal Republic.

   See “The Federal Republic of Germany—Monetary and Financial System—Official Foreign Exchange Reserves,” p. G-26 of Exhibit (d), which is hereby incorporated by reference herein.

9. Statements of imports and exports of merchandise for each year ended since the close of the latest year for which such information was previously reported. The statements should be reasonably itemized so far as practicable as to commodities and as to countries. They should be set forth in terms of value and of weight or quantity; if statistics have been established in terms of value, such will suffice.

   See “The Federal Republic of Germany—The Economy—International Economic Relations—Balance of Trade,” pp. G-22 et seq. of Exhibit (d), which are hereby incorporated by reference herein.

10. The balances of international payments of the Federal Republic for each year ended since the close of the latest year for which such information was previously reported. The statements of such balances should conform, if possible, to the nomenclature and form used in the “Statistical Handbook of the League of Nations.” (These statements need to be furnished only if the Federal Republic has published balances of international payments.)

    See “The Federal Republic of Germany—The Economy—International Economic Relations—Balance of Payments,” pp. G-21 et seq. of Exhibit (d), which is hereby incorporated by reference herein.

This annual report comprises:

(a) Pages numbered 1 to 8, consecutively.

(b) The following exhibits:

Exhibit (a)	–	None.
Exhibit (b)	–	None.
Exhibit (c)	–	The latest annual budget for the Federal Republic of Germany (pp. G-34 to G-39 of Exhibit (d) hereto).
Exhibit (d)	–	Description of KfW and the Federal Republic of Germany, dated May 18, 2015
Exhibit (e)	–	KfW Financial Information 2014
Exhibit (f)	–	Consent of KPMG AG Wirtschaftsprüfungsgesellschaft.
Exhibit (g)	–	Consent of the Federal Republic of Germany.

This annual report is filed subject to the Instructions for Form 18-K for Foreign Governments and Political Subdivisions thereof.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant KfW has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized in Frankfurt/Main, Germany on May 18, 2015.

KfW

By: /s/ DR GÜNTHER BRÄUNIG
Name: Dr Günther Bräunig
Title: Member of the Executive Board

By: /s/ EBERHARD FUCHS
Name: Eberhard Fuchs
Title: Senior Vice President

EXHIBIT INDEX

Exhibit	Description
(c)	Latest annual budget for the Federal Republic of Germany (pp. G-34 to G-39 of Exhibit (d) hereto).
(d)	Description of KfW and the Federal Republic of Germany, dated May 18, 2015.
(e)	KfW Financial Information 2014
(f)	Consent of KPMG AG Wirtschaftsprüfungsgesellschaft.
(g)	Consent of the Federal Republic of Germany.

Exhibit (d)

This description of KfW and the Federal Republic of Germany is dated May 18, 2015 and appears as Exhibit (d) to the Annual Report on Form 18-K of KfW for the fiscal year ended December 31, 2014.

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THIS DOCUMENT (OTHERWISE THAN AS PART OF A PROSPECTUS CONTAINED IN A REGISTRATION STATEMENT FILED UNDER THE U.S. SECURITIES ACT OF 1933) DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OF KFW. THE DELIVERY OF THIS DOCUMENT AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this description, references to “€”, “euro” or “EUR” are to the single European currency of the member states of the European Union participating in the euro and references to “U.S. dollars”, “$” or “USD” are to United States dollars. See “Exchange Rate Information” below for information regarding the rates of conversion of the euro into United States dollars and “The Federal Republic of Germany—General—The European Union and European Integration” for a discussion of the introduction of the euro.

Unless explicitly stated otherwise, financial information relating to KfW Group presented herein has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”).

Amounts in tables may not add up due to rounding differences.

On May 15, 2015, the euro foreign exchange reference rate as published by the European Central Bank was EUR 1.00 = U.S. dollar 1.1328 (EUR 0.8828 per U.S. dollar).

In this document, references to the “Federal Republic” and “Germany” are to the Federal Republic of Germany and references to the “Federal Government” are to the government of the Federal Republic of Germany. The terms “KfW Group” and “group” refer to KfW and its consolidated subsidiaries.

EXCHANGE RATE INFORMATION

We file reports with the Securities and Exchange Commission giving financial and economic data expressed in euro.

The following table shows noon buying rates for euro, expressed as U.S. dollars per EUR 1.00, for the periods and dates indicated, as reported on a weekly basis by the Federal Reserve Bank of New York.

Year ended December 31,	Period End	Average (1)	High	Low
2009	1.4332	1.3955	1.5100	1.2547
2010	1.3269	1.3216	1.4536	1.1959
2011	1.2973	1.4002	1.4875	1.2926
2012	1.3186	1.2909	1.3463	1.2062
2013	1.3779	1.3303	1.3816	1.2774
2014	1.2101	1.3210	1.3927	1.2101
Quarter ended March 31, 2015	1.0741	1.1076	1.2015	1.0524

(1) The average of the noon buying rates on the last business day of each month during the relevant period.

The following table shows the high and low noon buying rates for euro, expressed as U.S. dollars per EUR 1.00, for each month from November 2014 through May 2015 (through May 8, 2015), as published on a weekly basis by the Federal Reserve Bank of New York.

	High	Low
2014		
November 2014	1.2554	1.2394
December 2014	1.2504	1.2101
2015		
January 2015	1.2015	1.1279
February 2015	1.1462	1.1197
March 2015	1.1212	1.0524
April 2015	1.1174	1.0582
May 2015 (through May 8, 2015)	1.1345	1.1145

No representation is made that the euro or U.S. dollar amounts referred to herein or referred to in the documents which incorporate this information by reference could have been or could be converted into U.S. dollars or euro, as the case may be, at any particular rate.

There are, except in limited embargo circumstances, no legal restrictions in the Federal Republic of Germany on international capital movements and foreign exchange transactions. However, for statistical purposes only, every individual or corporation residing in the Federal Republic of Germany must report to the Deutsche Bundesbank, the German Central Bank, subject to a number of exceptions, any payment received from or made to an individual or a corporation resident outside of the Federal Republic of Germany if such payment exceeds EUR 12,500 (or the equivalent in a foreign currency).

RECENT DEVELOPMENTS

KFW

KfW's Results for the Three Months Ended March 31, 2015

KfW is not required by law to prepare and publish interim financial statements in conformity with International Financial Reporting Standards as adopted by the EU ("IFRS") applicable to interim financial reporting. Accordingly, KfW only prepares selected interim financial information rather than a full set of interim financial statements. The following information is based on this selected unaudited interim financial information prepared by KfW in accordance with IFRS applicable to interim financial reporting. This information is not necessarily indicative of the figures of KfW Group for the full year ending December 31, 2015.

The group's total assets increased by 8.4%, or EUR 41.3 billion, from EUR 489.1 billion as of December 31, 2014 to EUR 530.4 billion as of March 31, 2015. This increase was mainly due to currency related changes in market values of hedging transactions.

The group's operating result before valuation and promotional activities amounted to EUR 515 million for the three months ended March 31, 2015, compared with EUR 507 million for the corresponding period in 2014. The main driver for the group's operating result before valuation and promotional activities during the three months ended March 31, 2015 was an increase in net interest income. The group's operating result before valuation is before (i) risk provisions for lending business, (ii) net gains/losses from securities and investments, (iii) net gains/losses from hedge accounting and other financial instruments at fair value through profit or loss, and (iv) expenses relating to promotional activities. These valuation effects consisted mainly of the following:

- Expenses for risk provisions in an amount of EUR 4 million for the three months ended March 31, 2015, compared with expenses in an amount of EUR 37 million for the corresponding period in 2014;
- Positive effects in an amount of EUR 138 million as market values of securities and equity investments increased in the three months ended March 31, 2015, compared with positive effects of EUR 42 million for the corresponding period in 2014;
- Net charges in an amount of EUR 277 million for the three months ended March 31, 2015, due to fair value changes of derivatives used exclusively for hedging purposes in closed risk positions for the three months ended March 31, 2015, compared with net charges in an amount of EUR 12 million for the corresponding period in 2014[(1)]; and
- Charges relating to promotional activities in an amount of EUR 48 million for the three months ended March 31, 2015, compared with EUR 99 million for the corresponding period in 2014.

The group's consolidated result for the three months ended March 31, 2015, amounted to EUR 417 million compared with EUR 391 million for the corresponding period in 2014.

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(1) KfW generally enters into derivative transactions to economically hedge interest and currency risks in connection with its financing and funding activities. Some economic hedging relationships entered into do not qualify for hedge accounting or the fair value option under IFRS. In these cases, only the fair value changes in the hedging instrument are recognized in the consolidated income statement as net gains/losses from other financial instruments at fair value through profit or loss, whereas fair value changes in the hedged instrument are not. As a result, the economic risk-mitigating effect of such hedging relationships is not reflected in the consolidated income statement.

Promotional Business Volume

The following table sets forth a breakdown of commitments by business sector for the three months ended March 31, 2015 as compared with the same period in 2014.

PROMOTIONAL BUSINESS VOLUME BY BUSINESS SECTOR

	Three months ended March 31,		Year-to-Year
	2015	2014	% change
	(EUR in millions)		(in %)
Mittelstandsbank (SME bank)	**3,703**	**5,076**	**-27**
Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private client bank/credit institutions)	**6,074**	**4,913**	**24**
Export and project finance (KfW IPEX-Bank)	**6,752**	**3,300**	**105**
Promotion of developing and transition countries	**863**	**539**	**60**
of which KfW Entwicklungsbank	*539*	*378*	*43*
of which DEG — Deutsche Investitions- und Entwicklungsgesellschaft mbH	*324*	*161*	*101*
Capital markets	**41**	**116**	**-65**
Total promotional business volume (1) (2)	**17,433**	**13,871**	**26**

(1) Total promotional business volume for the three months ended March 31, 2015 has been adjusted for commitments of EUR 0 million, compared to EUR 73 million for the corresponding period in 2014, made by KfW IPEX-Bank relating to export and project finance and refinanced under certain of *Mittelstandsbank's* promotional programs.

(2) Commitments represent the volume of funds committed for loans and other business transactions (with the exception of program-based global loans to *Landesförderinstitute*) in the relevant period, including amounts to be disbursed in future periods, and do not include amounts disbursed in the relevant period pursuant to commitments made in prior periods. In the case of program-based global loans to the *Landesförderinstitute*, commitments represent the actual volume of funds disbursed in the relevant period.

KfW's total promotional business volume increased to EUR 17.4 billion for the three months ended March 31, 2015 from EUR 13.9 billion for the corresponding period in 2014. This increase was largely driven by increases in commitments in KfW's export and project finance business sector and KfW's business sector Kommunal- und Privatkundenbank/Kreditinstitute.

Commitments in the Mittelstandsbank business sector decreased to EUR 3.7 billion for the three months ended March 31, 2015 from EUR 5.1 billion for the corresponding period in 2014. This development was driven by lower commitments under KfW's general investment programs as well as lower commitments under KfW's environmental investment programs. The reduced credit demand was mainly the result of a market environment with unprecedented low interest rates.

Commitments in the business sector Kommunal- und Privatkundenbank/Kreditinstitute increased to EUR 6.1 billion for the three months ended March 31, 2015 from EUR 4.9 billion for the corresponding period in 2014. This increase was mainly attributable to higher commitments for global funding facilities to *Landesförderinstitute* and higher commitments in individual financing of banks.

Commitments in KfW's export and project finance business sector for the three months ended March 31, 2015 amounted to EUR 6.8 billion compared to EUR 3.3 billion for the corresponding period in 2014. This development was mainly attributable to increased commitments for KfW IPEX-Bank's industry and services sector and as well as increased commitments for its aviation and rail sector.

Commitments related to KfW's promotion of developing and transition countries increased to EUR 0.9 billion for the three months ended March 31, 2015 from EUR 0.5 billion for the corresponding period in 2014. This increase was linked to a rise in commitments of both KfW Entwicklungsbank and DEG.

Commitments in KfW's capital markets business sector for the three months ended March 31, 2015 decreased to EUR 41 million compared to EUR 116 million for the corresponding period in 2014.

Sources of Funds

The volume of funding raised in the capital markets for the four months ended April 30, 2015 totaled EUR 22.5 billion, of which 26% was raised in euro, 52% in U.S. dollar and the remainder in 11 other currencies.

Capitalization and Indebtedness of KfW Group as of March 31, 2015

	(EUR in millions)
Borrowings	
Short-term funds	45,746
Bonds and other fixed-income securities	386,205
Other borrowings	40,587
Subordinated liabilities	300
Total borrowings	472,838
Equity	
Paid-in subscribed capital (1)	3,300
Capital reserve (2)	8,447
Reserve from the ERP Special Fund	1,191
Retained earnings	10,436
Fund for general banking risks	500
Revaluation reserve	572
Total equity	23,302
Total capitalization	496,140

(1) KfW's equity capital, 80% of which is held by the Federal Government and the remaining 20% by the *Länder*, amounted to EUR 3,750 million as of March 31, 2015, of which EUR 3,300 million has been paid in pro rata by the Federal Government and the *Länder*.

(2) Includes equity capital in the form of a promotional reserve (*Förderrücklage*) from the ERP Special Fund of EUR 7,150 million.

The capitalization of KfW Group as of March 31, 2015 is not necessarily indicative of its capitalization to be recorded as of December 31, 2015.

The increase of EUR 1,704 million in total equity, which totaled EUR 23,302 million as of March 31, 2015 compared to EUR 21,598 million as of December 31, 2014, reflected (i) an increase of EUR 36 million of revaluation reserves due to valuation profits recognized directly in equity relating to "available-for-sale financial assets," (ii) KfW Group's consolidated result of EUR 417 million for the three months ended March 31, 2015 and (iii) an increase of EUR 1,250 million due to the converting from the ERP Special Fund subordinated loan to equity by inclusion in KfW's capital reserve.

In connection with the phase-in of the analogous application of banking supervisory law to KfW, the provisions of the Capital Requirements Regulation (*Regulation EU No 575/2013*), the German Banking Act (*Kreditwesengesetz*, "KWG") and the German Solvency Regulation (*Solvabilitätsverordnung*), which require banks to have adequate own funds (*Eigenmittel*) for the conduct of their business, will apply to KfW by analogy with effect from January 1, 2016. KfW, however, already calculates capital ratios prescribed by these rules on a voluntary basis for internal purposes. KfW applies all material rules in calculating these ratios, with slight modifications for KfW's promotional core business. According to the calculations based on the results for the three months ended March 31, 2015, KfW's total capital ratio according to article 92 of the Capital Requirements Regulation amounted to 13.9% and its Tier 1 ratio amounted to 13.8% as of March 31, 2015. The decrease of the total capital ratio, which amounted to 15.1% as of December 31, 2014, was mainly driven by higher exposures due to the appreciation of the U.S. dollar against the euro. With respect to the Tier 1 ratio, which amounted to 14.1% as of December 31, 2014, the negative effect of higher exposures was largely offset by the converting from the ERP Special Fund subordinated loan to equity. For information on the regulatory changes relating to the application of certain regulatory provisions, in particular, the KWG to KfW, please see "KfW—General—Supervision and Regulation."

THE FEDERAL REPUBLIC OF GERMANY

Overview of Key Economic Figures

The following economic information regarding the Federal Republic is derived from the public official documents cited below. Certain of the information is preliminary.

Gross Domestic Product (GDP)

GROSS DOMESTIC PRODUCT

(adjusted for price, seasonal and calendar effects) (1)

Reference period	Percentage change on previous quarter	Percentage change on the same quarter in previous year
1st quarter 2014	0.8	2.4
2nd quarter 2014	-0.1	1.4
3rd quarter 2014	0.1	1.2
4th quarter 2014	0.7	1.4
1st quarter 2015	0.3	1.0

(1) Adjustment for seasonal and calendar effects according to the Census X-12-ARIMA method.

Germany's gross domestic product ("GDP") increased by 0.3% after price, seasonal and calendar adjustments in the first quarter of 2015 compared to the fourth quarter of 2014. Compared to the previous quarter, positive contributions mainly came from domestic demand. The final consumption expenditure of households increased over the previous quarter, as did government final consumption expenditure. A positive development was also observed for fixed capital formation. Gross fixed capital formation in construction and in machinery and equipment was up markedly compared with the fourth quarter of 2014. Foreign trade, however, had a negative effect on economic growth. According to provisional calculations, exports of goods and services were up slightly compared with the fourth quarter of 2014. Imports, however, saw a much stronger increase.

In a year-on-year comparison, the German economy recorded positive growth. GDP in the first quarter of 2015 increased by 1.0% in price and calendar-adjusted terms, following an increase of 1.4% in the fourth quarter of 2014.

Source: Statistisches Bundesamt, Gross domestic product up 0.3% in the 1st quarter of 2015, press release of May 13, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/05/PE15_173_811.html).

Inflation Rate

INFLATION RATE

(based on overall consumer price index)

Reference period	Percentage change on previous month	Percentage change on the same month in previous year
April 2014	-0.2	1.3
May 2014	-0.1	0.9
June 2014	0.3	1.0
July 2014	0.3	0.8
August 2014	0.0	0.8
September 2014	0.0	0.8
October 2014	-0.3	0.8
November 2014	0.0	0.6
December 2014	0.0	0.2
January 2015	-1.0	-0.3
February 2015	0.9	0.1
March 2015	0.5	0.3
April 2015	0.0	0.5

In April 2015, consumer prices in Germany rose by 0.5% compared to April 2014. The inflation rate thus increased for the third consecutive month but remained at a low level. A decrease of 11.1% in the prices of mineral oil products had a negative effect on overall inflation in April 2015. Most notably, prices for heating oil and motor fuels decreased by 20.1% and 8.1%, respectively, compared to the corresponding period in 2014. Overall, the prices for energy decreased by 5.9% from April 2014 to April 2015. Excluding the prices of energy products, the inflation rate in April 2015 compared to April 2014 would have been 1.2%.

Food prices increased by 1.1% in April 2015 compared to April 2014. The main drivers of this year-on-year increase were the prices of vegetables and confectionary, which increased by 6.1% and 4.1%, respectively, compared to the corresponding period in 2014. Overall, the prices of goods decreased by 0.6% in April 2015 compared to April 2014, a slower decrease than in previous months. By contrast, prices for services increased by 1.2% in April 2015 compared to April 2014, due mainly to a 1.3% increase in net rents exclusive of heating expenses.

Compared to March 2015, the consumer price index remained unchanged in April 2015. An increase of 0.4% in the prices of goods was offset by a decrease of 0.4% in the prices of services. Overall, energy prices increased by 0.5% from March 2015 to April 2015. Over this time period, motor fuel prices increased by 2.3%, while household energy prices decreased by 0.3%.

Source: Statistisches Bundesamt, Consumer prices in April 2015 up 0.5% on April 2014, press release of May 13, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/05/PE15_174_611.html).

Unemployment Rate

UNEMPLOYMENT RATE

(percent of unemployed persons in the total labor force according to the International Labour Organization (ILO) definition) (1)

Reference period	Original percentages	Adjusted percentages (2)
March 2014	5.4	5.0
April 2014	5.1	5.0
May 2014	4.8	5.0
June 2014	4.8	5.0
July 2014	4.7	5.0
August 2014	5.0	5.0
September 2014	4.9	5.0
October 2014	4.8	5.0
November 2014	5.0	4.9
December 2014	4.5	4.8
January 2015	4.9	4.8
February 2015	5.3	4.7
March 2015	4.8	4.7

(1) The time series on unemployment are based on the German Labour Force Survey.

(2) Adjusted for seasonal and irregular effects (trend cycle component) using the X-12-ARIMA method.

The number of employed persons increased by approximately 238,000 persons, or 0.6%, from March 2014 to March 2015. Compared to February 2015, the number of employed persons in March 2015 increased by approximately 11,000, after adjustment for seasonal fluctuations.

In March 2015, the number of unemployed persons decreased by approximately 207,000, or 9.4%, compared to March 2014. When adjusted for seasonal and irregular effects (trend cycle component), the number of unemployed persons in March 2015 decreased by 1.0% to 1.97 million compared to February 2015.

Sources: Statistisches Bundesamt, 42.5 million persons in employment in March 2015, press release of April 30, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/04/PE15_157_132.html); Statistisches Bundesamt, Genesis-Online Datenbank, Tabelle 13231-0001, Erwerbslose, Erwerbstätige, Erwerbspersonen, Erwerbslosenquote: Deutschland, Monate, Original- und bereinigte Daten (https://www-genesis.destatis.de/genesis/online/logon?sequenz=tabelleErgebnis&selectionname=13231-0001&zeitscheiben=2&leerzeilen=false).

Current Account and Foreign Trade

CURRENT ACCOUNT AND FOREIGN TRADE

Item	(balance in EUR billion) (1) January to March 2015	January to March 2014
Trade in goods, including supplementary trade items	59.6	53.3
Services	-6.5	-7.2
Primary income	22.4	17.5
Secondary income	-15.2	-14.1
Current account	**60.4**	**49.5**

(1) Figures may not add up due to rounding.

Source: Statistisches Bundesamt, German exports in March 2015: +12.4% on March 2014, press release of May 8, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/05/PE15_165_51.html).

KFW

GENERAL

Overview

KfW is a public law institution (*Anstalt des öffentlichen Rechts*) serving domestic and international public policy objectives of the Federal Government ("Federal Government") of the Federal Republic of Germany ("Federal Republic"). KfW promotes its financing activities under the umbrella brand name KfW Bankengruppe. It conducts its business in the following business sectors:

- Mittelstandsbank (SME Bank) promotes small and medium-sized enterprises ("SMEs"), business founders, start-ups and self-employed professionals;
- Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private client bank/credit institutions) provides housing-related loans and grants as well as financing for education to private individuals, offers financing for infrastructure projects, primarily for municipalities, and grants global funding instruments to promotional institutes of the German federal states (*Landesförderinstitute*) and other financial institutions;
- Export and project finance: KfW IPEX-Bank GmbH ("KfW IPEX-Bank") offers customized financing for exports and project and corporate financing worldwide. KfW IPEX-Bank is a legally independent entity wholly owned by KfW;
- Promotion of developing and transition countries: KfW Entwicklungsbank (KfW Development Bank) is responsible for KfW's public sector development cooperation activities, and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment and Development Company, "DEG") finances private-sector investments in developing countries. DEG is a legally independent entity wholly owned by KfW; and
- Capital markets, which comprises KfW's treasury, funding, asset management and other capital markets-related activities.

With total assets of EUR 489.1 billion as of December 31, 2014, including loans and advances of EUR 367.2 billion, KfW is Germany's flagship promotional bank and ranks among Germany's largest financial institutions. KfW's promotional business volume amounted to EUR 74.1 billion in 2014.

KfW's offices are located at Palmengartenstraße 5-9, 60325 Frankfurt am Main, Germany. KfW's telephone number is 011-49-69-74310. KfW also maintains branch offices in Berlin and Bonn, Germany, as well as a liaison office to the European Union in Brussels, Belgium.

Ownership

The Federal Republic holds 80% of KfW's subscribed capital, and the German federal states (each, a "*Land*" and together, the "*Länder*") hold the remaining 20%. The Law Concerning KfW (*Gesetz über die Kreditanstalt für Wiederaufbau*, or the "KfW Law") does not provide for shareholders' meetings; instead, the Board of Supervisory Directors assumes the responsibilities of a shareholders' meeting. For more information on the Board of Supervisory Directors, see "Management and Employees—Board of Supervisory Directors."

Shares in KfW's capital may not be pledged; they may not be transferred to entities other than the Federal Republic or the *Länder*. Capital contributions have been, and are expected to continue to be, made to KfW in such proportions as to maintain the relative shares of capital held by the Federal Republic and the *Länder*.

Legal Status

KfW is organized under the KfW Law as a public law institution with unlimited duration. As a public law institution serving public policy objectives of the Federal Government, KfW itself is not subject to corporate taxes (although certain of its subsidiaries are) and as a promotional bank, KfW does not seek to maximize profits. KfW does, however, seek to maintain an overall level of profitability that allows it to strengthen its equity base in order to support its promotional activities. KfW is prohibited under the KfW Law from distributing profits, which are instead allocated to statutory reserves and to separately reportable reserves. KfW is generally also prohibited under the KfW Law from taking deposits or engaging in the financial commission business.

Relationship with the Federal Republic

Guarantee of the Federal Republic

The KfW Law expressly provides that the Federal Republic guarantees all existing and future obligations of KfW in respect of money borrowed, bonds and notes issued and derivative transactions entered into by KfW, as well as obligations of third parties that are expressly guaranteed by KfW (KfW Law, Article 1a). Under this statutory guarantee (the "Guarantee of the Federal Republic"), if KfW fails to make any payment of principal or interest or any other amount required to be paid with respect to securities issued by KfW, or if KfW fails to make any payment required to be made under KfW's guarantee when that payment is due and payable, the Federal Republic will be liable at all times for that payment as and when it becomes due and payable. The Federal Republic's obligation under the Guarantee of the Federal Republic ranks equally, without any preference, with all of its other present and future unsecured and unsubordinated indebtedness. Holders of securities issued by KfW or issued under KfW's guarantee may enforce this obligation directly against the Federal Republic without first having to take legal action against KfW. The Guarantee of the Federal Republic is strictly a matter of statutory law and is not evidenced by any contract or instrument. It may be subject to defenses available to KfW with respect to the obligations covered.

***Institutional Liability* (Anstaltslast)**

KfW is a public law institution (*Anstalt des öffentlichen Rechts*). Accordingly, under the German administrative law principle of *Anstaltslast*, the Federal Republic, as the constituting body of KfW, has an obligation to safeguard KfW's economic basis. Under *Anstaltslast*, the Federal Republic must keep KfW in a position to pursue its operations and enable it, in the event of financial difficulties, through the allocation of funds or in some other appropriate manner, to meet its obligations when due. *Anstaltslast* is not a formal guarantee of KfW's obligations by the Federal Republic, and creditors of KfW do not have a direct claim against the Federal Republic. Nevertheless, the effect of this legal principle is that KfW's obligations, including the obligations to the holders of securities issued by it or issued under KfW's guarantee, are fully backed by the credit of the Federal Republic. The obligation of the Federal Republic under *Anstaltslast* would constitute a charge on public funds that, as a legally established obligation, would be payable without the need for any appropriation or any other action by the German Parliament.

Understanding with the European Commission

In order to clarify that the Federal Republic's responsibility for KfW's obligations was and is compatible with European Union ("EU") law prohibitions against state aid, the German Federal Ministry of Finance and the European Commissioner for Competition held discussions which were formalized in an understanding reached on March 1, 2002. In the understanding with the European Commission, it was agreed that, in respect of the promotional activities for which KfW is responsible, KfW will continue to benefit from *Anstaltslast* and the Guarantee of the Federal Republic. The understanding acknowledged that KfW's role in providing financing for, in particular, small and medium-sized enterprises, risk capital, environmental protection, technology/innovation, infrastructure and housing, as well as its cooperation with developing countries, is promotional and thus compatible with EU rules.

In the area of export and project finance, the understanding with the European Commission required KfW to transfer to a legally independent subsidiary that portion of export finance and domestic and international project finance activities which the European Commission deemed to fall outside the scope of the promotional activities of KfW. The transfer of such activities was to be effected by December 31, 2007 and as from that date KfW has not been permitted to fund the subsidiary at other than market rates of interest or to extend to the subsidiary any benefits of *Anstaltslast* or the Guarantee of the Federal Republic.

KfW continues to be permitted, however, to engage directly in the following promotional export and project finance activities:

- implementation of international promotional programs, such as the interest-rate subsidized CIRR (Commercial Interest Reference Rate) and ASU (Aircraft Sector Understanding – previously referred to as Large Aircraft Sector Understanding, LASU) schemes, which are recognized as promotional activities in accordance with the Organization for Economic Cooperation and Development ("OECD") consensus;

- participation in syndicated financing activities outside the EU, the European Economic Area and countries holding the status of official candidate for EU membership, subject to certain conditions, and sole financing activities in countries in which sufficient sources of financing do not exist; and
- participation in projects in the interest of the EU that are co-financed by the European Investment Bank or similar European financing institutions.

The European Commission transformed the understanding into a decision, which the Federal Republic formally accepted. A part of the Promotional Bank Restructuring Act (*Förderbankenneustrukturierungsgesetz*) implemented the understanding with the European Commission and amended the KfW Law accordingly.

On January 1, 2008, KfW IPEX-Bank, a limited liability corporation (*Gesellschaft mit beschränkter Haftung*) formed as a wholly owned subsidiary of KfW, commenced operations as a legally independent entity, thus satisfying the requirements set forth in the understanding with the European Commission. KfW IPEX-Bank conducts those export and project finance activities which the European Commission deemed to fall outside the scope of KfW's promotional activities directly and on its own behalf. For more information on KfW IPEX-Bank, see "Business—Export and Project Finance (KfW IPEX-Bank)."

Supervision and Regulation

Supervision

The Federal Ministry of Finance, acting in consultation with the Federal Ministry for Economic Affairs and Energy, exercises legal supervision (*Rechtsaufsicht*) over KfW, i.e., it supervises KfW's compliance with applicable law and may adopt all necessary measures to ensure such compliance. Legal supervision primarily comprises supervision of compliance with the KfW Law and KfW's By-Laws, but also with all other applicable laws and regulations except for certain provisions of bank regulatory law referenced in the following paragraph and described in "Regulation." The relevant Federal Ministers are represented on KfW's Board of Supervisory Directors, which supervises KfW's overall activities. See below "Management and Employees—Board of Supervisory Directors."

In addition to being subject to legal supervision by the Federal Ministries, in October 2013, KfW became subject to banking-specific supervision exercised by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or "BaFin"). This supervision was established by a ministerial regulation (*KfW-Verordnung*, or "KfW Regulation"), which implements an amendment to the KfW Law which entered into force in July 2013. The KfW Regulation, while maintaining KfW's general exemption from bank regulatory law, specifies those provisions of bank regulatory law which are to apply to KfW by analogy and assigns the supervision of compliance with these provisions to BaFin. In exercising its supervision, BaFin cooperates with the German Central Bank (*Deutsche Bundesbank*) in accordance with normal bank supervisory procedures. For further details, see "Regulation."

In addition to compliance with the financial reporting and auditing standards generally applicable to banks in Germany, KfW, under the KfW Law, is subject to special auditing standards for government-owned entities set forth in the Budgeting and Accounting Act (*Haushaltsgrundsätzegesetz*). These special auditing standards require that KfW's annual audit, above and beyond its normal scope, cover the proper conduct of KfW's business by its management. The resulting auditor's report is to enable the Board of Supervisory Directors, the responsible Federal Ministries, and the Federal Court of Auditors (*Bundesrechnungshof*) to form their own opinion and to take action if required.

Finally, as a government-owned entity, KfW is subject to audits by the Federal Court of Auditors with regard to its economical use of funds pursuant to the Budgeting and Accounting Act.

Regulation

Overview of KfW's Regulatory Status. KfW is generally exempt from bank regulatory laws and regulations, as it neither qualifies as a "credit institution" or "financial services institution" within the meaning of the German Banking Act (*Gesetz über das Kreditwesen*, or "KWG") nor as a "credit institution" within the meaning of relevant EU directives and regulations, including in particular the EU Capital Requirements Directive IV ("CRD IV") and the EU Capital Requirements Regulation ("CRR"). However, by operation of the KfW Regulation, considerable parts of the KWG and the CRR, including relevant implementing rules and regulations, apply by analogy to KfW, with the bulk of rules and regulations applying with effect from January 1, 2016. The KfW Regulation takes into account KfW's special status as an entity not generally engaged in deposit taking, characterized by a low-risk profile in its lending business and benefiting from the Guarantee of the Federal Republic. It therefore provides for certain modifications and exceptions in connection with the analogous application of the relevant rules and regulations.

The analogous application of EU and national bank regulatory law imposed by the KfW Regulation is without prejudice to KfW's status as a "public sector entity" within the meaning of Article 4 (8) CRR. This status confers certain advantages to KfW's refinancing activities given the fact that exposures to public sector entities held by banks are privileged as to capital requirements, large exposures limitations and liquidity measurement under EU and national bank regulatory law. Securities issued by KfW, such as bonds and notes, are in principle eligible as level 1 assets pursuant to Article 10(1)(c)(v) of the Commission Delegated Regulation (EU) 2015/61 of October 10, 2014.

Bank Regulatory Rules and Regulations Applied by Analogy. By operation of the KfW Regulation, bank regulatory requirements for corporate governance set forth in Sections 25c through 25d KWG have become applicable to KfW by analogy with effect from July 1, 2014. In reaction thereto certain adjustments to the committee structure of KfW's Board of Supervisory Directors have been made with effect from August 1, 2014. For more information on these adjustments, see "Management and Employees—Board of Supervisory Directors."

As of January 1, 2016, the bank regulatory requirements for remuneration policies set forth in Section 25a KWG and further specified in the German Remuneration Regulation for Credit Institutions (*Institutionsvergütungsverordnung*) will apply to KfW.

The capital adequacy regime as set up by part 2 titles I through III and part 3 titles I through VI of CRR will apply by analogy virtually in its entirety to KfW with effect from January 1, 2016, including the calculation of regulatory own funds and own funds requirements, both on a stand-alone and a consolidated basis. KfW will also become subject to the new capital buffers regime introduced by CRD IV and transposed into national law in Sections 10c through 10i KWG, which will require KfW to maintain a capital conservation buffer and a countercyclical capital buffer. KfW may be subject to certain requirements by BaFin to maintain additional capital buffers for systemic risk, such as a buffer for national systemically relevant institutions.

With effect from January 1, 2016, KfW will also apply the large-exposures regime of part IV of CRR as supplemented by the KWG and relevant implementing rules and regulations by analogy. Under this regime, exposures to any one client or group of connected clients are limited to 25% of eligible own funds and exposures exceeding 10% of eligible own funds are subject to special internal monitoring requirements and a reporting obligation to the German bank supervisory authorities.

In addition, KfW will apply the provisions concerning leverage with effect from January 1, 2016 by analogy. Under this regime, the ratio of KfW's Tier 1 capital to the accounting value of assets and off-balance sheet exposures must be reported at group as well as at entity level. The leverage ratio will be internally monitored from 2016 onwards and is expected to become part of the prudential requirements from 2018 onwards.

Finally, in addition to complying with the German Anti-Money Laundering Act (*Geldwäschegesetz* – GwG), with effect from January 1, 2016, KfW will comply with the provisions concerning money laundering, terrorist financing and other criminal offences set forth in the KWG (Sections 25g through 25m), with special focus on sections 25l et seq. of the KWG, at group as well as at entity level.

The bank regulatory requirements for risk management systems set forth in the KWG and in the German Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement*, or "MaRisk") will apply to KfW by analogy with effect from January 1, 2016, and provide for sound systems for risk strategy planning, the implementation of risk management and financial and operational controls as well as requirements for credit decision-making processes. Certain exemptions are granted in this context for KfW's assigned business (*Zuweisungsgeschäft*) in accordance with article 2 paragraph 4 of the KfW Law, i.e., those activities which KfW carries out as directed by the Federal Government, usually at the Federal Republic's economic risk.

KfW is generally exempt from the application of the liquidity regime as set forth in the CRR and the KWG. On the same grounds, KfW is generally exempt from EU and national disclosure requirements and from the obligation to draw up restructuring and resolution plans.

Supervisory Structure and Enforcement Powers. The supervision of KfW's compliance with the bank regulatory laws and regulations is assigned to BaFin in cooperation with *Deutsche Bundesbank* in accordance with BaFin's general risk-oriented Supervisory Review and Evaluation Process. In this context, *Deutsche Bundesbank* undertakes the ongoing audit and analysis of banks with regard to both their financial stability and the adequacy of their internal governance and risk-management systems. *Deutsche Bundesbank* receives and preprocesses relevant data, while final decision making and the exercise of enforcement powers are reserved to BaFin.

For purposes of supervision, the KfW Regulation subjects KfW by analogy to the reporting and information requirements generally applicable to banks in Germany, with the exception of the automated access to client account details, with effect from January 1, 2016. In addition, the KfW Regulation subjects KfW by analogy to certain enforcement powers of BaFin, which comprise, among other matters, the right to demand increases of regulatory own capital and/or a reduction of regulatory risk, or to demand changes in the senior management of KfW.

Since KfW does not as such qualify as a regulated entity under national or EU bank regulatory law, KfW did not become subject to recent changes in the national and EU bank supervisory structure. In particular, KfW is not subject to supervision by the European Central Bank ("ECB") pursuant to Council Regulation (EU) No. 1024/2013, establishing the European Single Supervisory Mechanism ("SSM"). KfW IPEX-Bank was included in the ECB's comprehensive assessment of large banks conducted in cooperation with national supervisory authorities of member states participating in the SSM. According to a decision taken by the ECB in September 2014, KfW IPEX-Bank does not qualify as a significant credit institution and will therefore not be supervised by ECB. Instead, KfW IPEX-Bank will continue to be supervised by BaFin in cooperation with Deutsche Bundesbank.

For more information on KfW IPEX-Bank, see "Business—Export and Project Finance (KfW IPEX-Bank)."

Phasing in of the Banking Supervisory Law. The analogous application of banking supervisory law to KfW is being phased in gradually, with the majority of the rules, regulations and enforcement powers described above only becoming applicable as of January 1, 2016. Supervisory responsibilities and certain limited information powers of BaFin and *Deutsche Bundesbank* have been in place since October 2013, however, while requirements relating to corporate governance have been applicable since July 1, 2014.

To date, KfW has complied on a voluntary basis with significant parts of bank regulatory law, including the own capital requirements of the KWG and the risk management requirements of MaRisk. Therefore, KfW already employs a state-of-the-art monitoring and controlling system for major risk categories, including monthly risk-reporting to its Executive Board.

In the run-up to the reporting and information requirements coming into force as of January 1, 2016, and the implementation of a fully-fledged regulatory reporting system, KfW will provide the supervisory authorities with relevant reports and information, the form of which has been agreed with the supervisory authorities.

Regulatory Costs. As KfW has already applied significant parts of bank regulatory law on a voluntary basis to most of its activities, KfW expects that its previous voluntary compliance will facilitate its compliance with the rules and regulations becoming mandatory by operation of the KfW Regulation. Nonetheless, compliance is expected to entail special organizational efforts and related cost expenditure currently estimated to amount to up to EUR 120 million annually until 2020.

Corporate Background

KfW was established in 1948 by the Administration of the Combined Economic Area, the immediate predecessor of the Federal Republic. Originally, KfW's purpose was to distribute and lend funds of the European Recovery Program, which is also known as Marshall Plan (the "ERP"). Even today, several of KfW's programs to promote the German and European economies are supported using funds for subsidizing interest rates from the so-called "ERP Special Fund." KfW has expanded and internationalized its operations over the past decades. In 1994, following the reunification of the Federal Republic and the former German Democratic Republic ("GDR"), KfW assumed the operations of the former central bank of the GDR (*Staatsbank*), which was located in Berlin, Germany.

In September 2001, KfW acquired DEG from the Federal Republic. DEG is a limited liability company that acts as the German development finance institution for the promotion of private enterprises in developing countries and countries in transition. For more information on DEG, see "Business—Promotion of Developing and Transition Countries—DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH."

In 2003, Deutsche Ausgleichsbank ("DtA"), which was based in Bonn, Germany, merged into KfW. DtA was formed in 1950 as a public law institution and promotional bank, particularly active in the area of lending to SMEs and start-up businesses. The merger was accomplished through the Promotional Bank Restructuring Act and was designed to restructure and simplify promotional banking in the Federal Republic and harmonize it with the understanding reached with the European Commission.

Financial Statements and Auditors

The consolidated financial statements of KfW included in Exhibit (e) to this annual report have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS") and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (*Handelsgesetzbuch*, or "HGB") and supplementary provisions of the KfW Law. IFRS differs in certain significant respects from accounting principles generally accepted and financial reporting practices followed in the United States ("U.S. GAAP"), and, as a result, KfW's consolidated financial statements included in Exhibit (e) to this annual report may differ substantially from financial statements prepared in accordance with U.S. GAAP.

Pursuant to the KfW Law, the annual financial statements of KfW are examined by a *Wirtschaftsprüfer* (Certified Public Accountant) who is appointed by the Federal Minister of Finance at the proposal of the Board of Supervisory Directors in consultation with the Federal Court of Auditors (*Bundesrechnungshof*). KfW's external auditors for the fiscal year 2014 are KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), a member firm of KPMG International.

The annual audit is conducted in accordance with German Generally Accepted Auditing Standards.

The auditor's report of KPMG for the year ended December 31, 2014, dated March 3, 2015, refers to a group management report (*Konzernlagebericht*). The examination of, and the auditor's report upon, this group management report are required under German generally accepted accounting principles. This examination was not made in accordance with U.S. generally accepted auditing standards ("U.S. GAAS") or U.S. attestation standards. Therefore, KPMG does not provide any opinion on such examination, on the group management report or on the financial statements included in Exhibit (e) to this annual report in accordance with U.S. GAAS or U.S. attestation standards. A reprint of the auditor's report can be found on page 154 of Exhibit (e).

BUSINESS

Introduction

KfW currently conducts its business in the following business sectors:

- Mittelstandsbank (SME Bank), which focuses on SMEs and other commercial clients;
- Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private client bank/credit institutions), which focuses on private clients and public clients, such as municipalities and *Landesförderinstitute*;
- Export and project finance (KfW IPEX-Bank);
- Promotion of developing and transition countries (KfW Entwicklungsbank and DEG); and
- Capital markets, which comprises KfW's treasury, funding, asset management and other capital markets-related activities.

The following table sets forth the relative size of each of the business sectors in terms of commitments for each of the years indicated.

PROMOTIONAL BUSINESS VOLUME BY BUSINESS SECTOR

	Year ended December 31,	
	2014	2013
	(EUR in millions)	
Mittelstandsbank (SME bank)	**19,924**	**22,640**
Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private client bank/credit institutions)	**27,699**	**28,911**
Export and project finance (KfW IPEX-Bank)	**16,638**	**13,736**
Promotion of developing and transition countries	**8,830**	**6,718**
of which KfW Entwicklungsbank	*7,356*	*5,268*
of which DEG — Deutsche Investitions- und Entwicklungsgesellschaft mbH	*1,473*	*1,450*
Capital markets	**1,203**	**651**
Total promotional business volume (1) (2)	**74,141**	**72,462**

(1) Total promotional business volume for 2014 has been adjusted for commitments of EUR 153 million compared to EUR 193 million for 2013, made by KfW IPEX-Bank relating to export and project finance and refinanced under certain of *Mittelstandsbank's* promotional programs.

(2) Commitments represent the volume of funds committed for loans and other business transactions (with the exception of program-based global loans to *Landesförderinstitute*) in the relevant period, including amounts to be disbursed in future periods, and do not include amounts disbursed in the relevant period pursuant to commitments made in prior periods. In the case of program-based global loans to the *Landesförderinstitute*, commitments represent the actual volume of funds disbursed in the relevant period.

The following table shows the relative size of each of the five business sectors in terms of percentage of loans and advances outstanding and economic capital required at year-end 2014. In general, a lower percentage in economic capital required compared to loans and advances outstanding illustrates a below average risk associated therewith. The percentage of economic capital required of the business sector capital markets includes also the economic capital required for treasury activities.

RELATIVE SIZE OF EACH BUSINESS SECTOR

	As of December 31, 2014	
	Loans and advances outstanding	Economic capital required (1)
Mittelstandsbank	28 %	9 %
Kommunal- und Privatkundenbank/Kreditinstitute	48 %	9 %
Export and project finance (KfW IPEX-Bank)	13 %	15 %
Promotion of developing and transition countries (KfW Entwicklungsbank and DEG)	7 %	14 %
Capital markets	4 %	8 %
Total (in EUR billions)	**380.4**	**15.5**

(1) The balance of economic capital required relates to group functions. The economic capital required has been calculated on a solvency level of 99.99%. For more information concerning economic capital required of KfW Group, see "Group management report—Risk report—Risk management approach of KfW Group—Internal capital adequacy assessment process—Economic risk-bearing capacity" and note 38 to the financial statements, both included in Exhibit (e) to this annual report.

Domestic Promotional Business

General

To support the economic and policy objectives of the Federal Government, KfW offers a broad range of financing programs in Germany and, to a limited extent, elsewhere in Europe, as well as grants funded from the federal budget for domestic promotional purposes. KfW's predominant domestic finance activities are conducted by the business sectors Mittelstandsbank and Kommunal- und Privatkundenbank/Kreditinstitute. Further promotional activities targeting the domestic market are reported under the Capital markets business sector.

Under the KfW Law, KfW must generally involve banks or other financing institutions when granting financing. Therefore, KfW involves commercial banks in the handling of its loans by extending loans to commercial banks, which, in turn, on-lend the funds to the ultimate borrowers. To a limited extent, however, KfW is allowed to grant financing directly to the ultimate borrower (e.g., for financing of municipalities). By lending to commercial banks, KfW, in principle, insulates itself from credit exposure to the ultimate borrower and gains the benefit of the commercial banks' knowledge of their customers as well as their administrative and servicing expertise. KfW monitors its exposures to, and the credit standing of, each banking institution to which it lends. In its domestic business sectors, KfW currently lends to approximately 200 banks. In 2014, 59% (2013: 61%) of KfW's total interbank exposure (exposure at default) was attributable to KfW's ten largest banking group counterparties. The vast majority of this exposure relates to KfW's on-lending business, while the portion deriving from other business transactions, e.g., derivatives, securities, money market and global loan transactions, is much more limited.

KfW's German commercial banking on-lending customers include the German *Landesbanken*. The *Landesbanken* are German public law financial institutions that have traditionally focused on the banking business for and in the *Land* in which they operate. Originally, obligations of the *Landesbanken* benefited from government credit support (*Gewährträgerhaftung*). Under a settlement reached with the European Commission in July 2001 relating to state aid to the *Landesbanken*, however, borrowings by the *Landesbanken* incurred after the settlement date and maturing after December 31, 2015 and all borrowings incurred after July 19, 2005 no longer benefit from government credit support. KfW's long-term receivables from on-lending operations involving *Landesbanken* amounted to EUR 75.0 billion as of December 31, 2014. Of this amount, EUR 12.2 billion, or 16.2%, continues to benefit from government credit support. Since the settlement, KfW's credit line management has increased its focus on the individual financial strength of each institution. In addition, most of the loans to the *Landesbanken* have been, and will continue to be, secured by collateral. Over time, the risk profile of the loans to the *Landesbanken* has shifted from government risk to a profile more comparable to KfW's other loans to the banking sector.

KfW offers two different models for processing KfW loans to commercial banks. KfW's traditional and most important model for handling its lending business is based on individual loan applications by each borrower within the framework of specified loan, mezzanine capital or equity participation instruments. Under the other model, KfW extends global funding facilities and program-based global loans to *Landesförderinstitute*, as well as non program-based global loans to selected *Landesförderinstitute* with existing agreements and to selected financial institutions in Germany and Europe.

Individual Loans. KfW defines detailed formal eligibility requirements for each loan that it extends to a commercial bank as well as for each loan the commercial bank on-lends to the ultimate borrower under each of its lending programs. Borrowers in general do not apply directly to KfW, however, and may only apply for a KfW loan through a bank of their choice. The intermediate bank appraises the financial and business situation of the applicant, takes collateral for the loan and assumes liability for repayment to KfW. Loans made by commercial banks, as borrowers, are normally collateralized by liens on real property or other assets, or are guaranteed by the Federal Republic or by one of the *Länder*. The processing of individual loans within KfW's lending programs is characterized by two formally separate loan approvals – first by the intermediate bank and then by KfW – for each borrower. KfW's loan approval, however, in most cases depends solely on a review of the individual loan application, based on compliance with the formal requirements defined for the particular lending program.

KfW applies different pricing models for granting loans: a fixed-rate pricing model; and a risk-adjusted pricing model. Under the fixed-rate pricing model, the commercial banks to which KfW lends are permitted to on-lend these funds at fixed spreads over the applicable interest rate payable to KfW. This fixed-rate pricing model is applied to housing investment and education lending programs and some lending programs for start-up financing. Under the risk-adjusted pricing model, KfW establishes pricing categories based on a combination of the borrower's creditworthiness and the collateral securing the loan. Under each lending program, KfW sets maximum interest rates for each pricing category. The on-lending banks assess the risk profile of the borrower and the collateral securing the loan to determine the applicable pricing category for each loan and the applicable maximum interest rate for the pricing category. KfW's role in the pricing process is limited to verifying that banks derive the appropriate maximum interest rate from the ultimate borrower's creditworthiness and the collateral provided.

In the traditional SME lending programs offered by KfW, the on-lending banks are liable to KfW and bear the risk of customer default as described above. In recent years, KfW has constantly been reworking and renewing its SME financing programs to increase its support for SMEs. Under those lending programs, to which the risk-adjusted pricing model applies, KfW offers the option of a partial exemption from liability to on-lending banks. If the on-lending bank applies for an exemption from liability, KfW bears the risk not retained by the bank and the risk margin is shared pro rata between KfW and the bank. The risk-adjusted pricing model applies amongst others to Mittelstandsbank's largest and most important lending program, the KfW *Unternehmerkredit* (Entrepreneurial Loan program). In addition, mezzanine capital and equity participations offered by Mittelstandsbank and its special programs for investments by micro-enterprises are designed so that KfW assumes direct exposure to the credit risk of the ultimate borrower, which is covered or compensated in different ways: by means of risk premiums included in the interest rate charged to the ultimate borrower; or by means of guarantees from the Federal Government or the European Investment Fund.

Global Loans and Global Funding Facilities. Global loans and global funding facilities differ from KfW's individual loans primarily in terms of simplified processing, the lack of a requirement for formal loan approval by KfW with respect to each individual ultimate borrower and, in general, a higher degree of flexibility for the on-lending *Landesförderinstitute* and other financial institutions. KfW expects the recipient *Landesförderinstitute* and other recipient financial institutions to on-lend these funds within a reasonable period of time. In contrast to KfW's individual loans, these instruments offer greater loan structure flexibility. As a result, global loans and global funding facilities entail lower administrative costs for both KfW and the on-lending *Landesförderinstitute* and other financial institutions compared with KfW's traditional lending programs. Accordingly, the final borrowers generally benefit from favorable interest rates as well as from streamlined processes.

KfW offers different kinds of global loans and global funding facilities: program-based global loans and global funding facilities to *Landesförderinstitute*; and non program-based global loans to selected *Landesförderinstitute* and financial institutions. In the case of *Landesförderinstitute*, starting in 2014 non-program-based global loans are no longer being offered as new business, but only in connection with existing agreements. Most of the *Landesförderinstitute* are independent public law institutions and benefit from explicit guarantees by the respective German federal state (*Land*). Each *Landesförderinstitut* is responsible for promotional matters within its *Land* or *Länder*, as the case may be. KfW cooperates with 17 *Landesförderinstitute*.

Landesförderinstitute use KfW's program-based global loans to finance specified investments relating to SMEs, housing projects and municipal infrastructure projects in their respective *Land* within the framework of cooperative loan programs of the respective *Landesförderinstitut* and KfW. The conditions of each cooperative loan program must comply with the conditions of the relevant KfW program. The funds to *Landesförderinstitute* are generally extended in the form of lump sums, which are then broken down and granted to the final borrower as individual loans.

Moreover, KfW extends global funding facilities exclusively to *Landesförderinstitute* for their own promotional funding purposes, thus offering *Landesförderinstitute* flexibility with respect to the use of funds extended in their promotional business without a direct link to any of KfW's lending programs.

KfW extends non program-based global loans to selected *Landesförderinstitute* and selected financial institutions in Germany and elsewhere in Europe, which the *Landesförderinstitute* and other financial institutions in turn break down and grant as individual loans to finance SMEs, housing projects and municipal infrastructure projects and, increasingly, energy efficiency projects. Leasing companies in Germany are also entitled to apply for such global loans, which they split into individual lease contracts in order to finance leasing projects with SMEs in Germany.

Mittelstandsbank (SME Bank)

KfW's Mittelstandsbank business sector supports SMEs, business founders, start-ups and self-employed professionals; it offers financing for various purposes to companies in different stages of development. According to a representative KfW survey in the German SME sector, known as KfW SME Panel 2014, there were an estimated 3.61 million small and medium enterprises (defined as corporations with an annual group turnover of up to EUR 500 million) in 2013. SMEs have been the backbone of the German economy for decades. In 2013, they accounted for 53% of the gross investment by the German corporate sector, employed 68% of the workforce and trained 87% of the apprentices.

Mittelstandsbank provides financing in the areas of start-up financing and general investments, innovation and environmental investments, primarily by means of loan programs (2014: EUR 18.3 billion, 2013: 21.4 billion), mezzanine programs (2014: EUR 1.5 billion, 2013: EUR 1.1 billion) and equity investments (2014: EUR 0.1 billion, 2013: EUR 0.1 billion).

The following table shows Mittelstandsbank's commitments by area for each of the years indicated:

MITTELSTANDSBANK COMMITMENTS

	Year ended December 31,		Year-to-Year
	2014	2013	% change
	(EUR in millions)		(in %)
Start-up financing and general investment	10,334	11,337	*-9*
Innovation	1,371	1,023	*34*
Environmental investment	8,219	10,280	*-20*
Total commitments (1)	**19,924**	**22,640**	*-12*

(1) Commitments represent the volume of funds committed for loans and other business transactions (with the exception of program-based global loans to *Landesförderinstitute*) in the relevant year, including amounts to be disbursed in future years, and do not include amounts disbursed in the relevant year pursuant to commitments made in prior years. In the case of program-based global loans to the *Landesförderinstitute*, commitments represent the actual volume of funds disbursed in the relevant year.

To support the German economy, Mittelstandsbank committed financing in the amount of EUR 19.9 billion in 2014 (2013: EUR 22.6 billion). This decrease was attributable to lower commitments under KfW's environmental investment programs as well as under KfW's general investment programs. Commitments in 2014 included EUR 5.8 billion extended as program-based global loans to *Landesförderinstitute* (2013: EUR 7.0 billion).

Mittelstandsbank primarily offers loan programs. Under loan programs, to which the risk-adjusted pricing model applies, Mittelstandsbank offers the on-lending banks a partial exemption from liability. If the on-lending bank applies for an exemption from liability, KfW bears the risk not retained by the bank and the risk margin is shared pro rata between KfW and the bank. This is the case for KfW Unternehmerkredit, which is the most important SME loan program and offers financing for a broad range of investments, such as construction and purchases of machinery, in the start-up financing and general investment area.

Mittelstandsbank also extends mezzanine capital in the form of unsecured subordinated loans, which contain equity-like elements combining characteristics of debt and equity capital. In these financings, the on-lending bank is not liable to Mittelstandsbank for the subordinated loan. In order to better reflect the correlation between yield and risk weighting, the interest rate of the subordinated loan takes into account the prevailing rates in the capital markets as well as the borrower's credit standing. The borrower's creditworthiness is first assessed by the on-lending bank. However, as KfW fully assumes the credit risk of the subordinated loan, it reserves the right to review and, if necessary, to revise the on-lending bank's assessment by applying KfW's own rating standards.

Finally, Mittelstandsbank provides equity financing for innovative SMEs by direct investment on a *pari passu* basis with private investors as well as equity for SMEs from various equity funds.

Start-up Financing and General Investment Programs

Mittelstandsbank provides start-up financing and financial support for general investments for a wide range of purposes such as investments in property and buildings, in plants, machinery and equipment, or in acquisitions. In 2014, commitments in this area decreased to EUR 10.3 billion (2013: EUR 11.3 billion), due to a decline in commitments under the KfW Unternehmerkredit program from EUR 8.0 billion in 2013 to EUR 6.9 billion in 2014. Commitments in the field of start-up financing remained at the same level as in 2013 (2014: EUR 2.8 billion; 2013: EUR 2.7 billion).

Mittelstandsbank also offers advisory support to individuals and businesses to strengthen the competitive ability and sustainability of SMEs. KfW partially funds coaching and advisory services for individual entrepreneurs and for SMEs to support the early start-up phase of new businesses or to determine the necessary steps for a turnaround in case of temporary difficulties. Furthermore, KfW supports energy efficiency consultancy services for SMEs. In 2014, KfW extended EUR 70 million in grants for advisory services (2013: EUR 94 million). Compared to 2013 this decrease is mainly attributable to a decline in grants for start-up coaching. Most of these grants are refinanced either by the European Social Fund or by the Federal Government.

Innovation Programs

Mittelstandsbank provides financing for innovations by extending funds for research and development activities either by means of loans, mezzanine capital or direct equity investments. Notwithstanding the general weakness in demand for credit from SMEs, commitments in the innovation programs increased to EUR 1.4 billion in 2014 (2013: EUR 1.0 billion).

Environmental Investment Programs

Mittelstandsbank finances environmental protection projects, in particular for measures aiming to increase energy efficiency, reducing greenhouse gas emissions and promoting the use of sources of renewable energy. In 2014, commitments for environmental investment programs decreased to EUR 8.2 billion (2013: EUR 10.3 billion). This development was mainly attributable to lower commitments under KfW's Energieeffizienzprogramm (Energy efficiency program), which decreased from EUR 4.7 billion in 2013 to EUR 3.2 billion in 2014, whereas commitments under KfW's Erneuerbare Energien Programm (Renewable Energies Program) decreased to EUR 4.1 billion (2013: 4.7 billion) and commitments under KfW's Umweltprogramm (Environmental Program) increased slightly to EUR 0.6 billion (2013: 0.5 billion). Disbursements under KfW's Renewable Energies Program, which promotes investments in projects for the use of wind energy, solar energy, biogas/biomass systems and hydropower, among others, are linked to KfW's green bond issuances (see "Capital Markets—Funding").

Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private client bank/credit institutions)

KfW's Kommunal- und Privatkundenbank/Kreditinstitute business sector extends housing-related loans and grants as well as financing for education to private individuals, provides financing for infrastructure projects, primarily for municipalities, grants global funding instruments to promotional institutes of the German federal states (*Landesförderinstitute*) and other financial institutions and offers long-term refinancing of export loans to commercial banks.

The following table shows Kommunal- und Privatkundenbank/Kreditinstitute's commitments by area for each of the years indicated.

KOMMUNAL- UND PRIVATKUNDENBANK/KREDITINSTITUTE COMMITMENTS

	Year ended December 31,		Year-to-Year
	2014	2013	% change
	(EUR in millions)		(in %)
Housing investment programs	14,338	15,550	*-8*
Education programs	2,591	2,625	*-1*
Municipal infrastructure programs	3,983	4,676	*-15*
Global funding facilities to *Landesförderinstitute*	4,626	3,599	*29*
Programs for the refinancing of export loans	673	643	*5*
Global loans to other financial institutions	1,388	1,702	*-18*
Total commitments (1)	**27,699**	**28,911**	*-4*

(1) Commitments represent the volume of funds committed for loans and other business transactions (with the exception of program-based global loans to *Landesförderinstitute*) in the relevant year, including amounts to be disbursed in future years, and do not include amounts disbursed in the relevant year pursuant to commitments made in prior years. In the case of program-based global loans to the *Landesförderinstitute*, commitments represent the actual volume of funds disbursed in the relevant year.

In 2014, Kommunal- und Privatkundenbank/Kreditinstitute's commitments amounted to EUR 27.7 billion (2013: EUR 28.9 billion). The decrease compared to 2013 was mainly attributable to a decrease in commitments under Kommunal- and Privatkundenbank/Kreditinstitute's housing and municipal infrastructure investment programs.

Housing Investment Programs

Kommunal- und Privatkundenbank/Kreditinstitute's housing investment programs provide funds for the promotion of home ownership, for energy-efficient construction and rehabilitation, and for the improvement of accessibility to or within existing homes. Some of these programs are subsidized through interest rate reductions paid for by federal funds. Commitments in 2014 amounted to EUR 14.3 billion (2013: EUR 15.6 billion), of which EUR 9.3 billion (2013: EUR 10.4 billion) were granted for energy efficient construction and rehabilitation measures and EUR 4.7 billion (2013: EUR 4.5 billion) for home ownership promotion programs.

Education Programs

Kommunal- und Privatkundenbank/Kreditinstitute supports students and employees in higher education and advanced occupational training with direct loans. Some of these programs are subsidized through interest rate reductions paid for by federal funds. In 2014, commitments amounted to EUR 2.6 billion (2013: EUR 2.6 billion).

Municipal Infrastructure Programs

Kommunal- und Privatkundenbank/Kreditinstitute provides financing for investments in municipal and social infrastructure, predominantly as direct loans to municipalities (i.e., local and municipal authorities and municipal special-purpose associations). Infrastructure investments by private companies that are majority-owned by municipal authorities and social investments made by non-profit organizations are financed according to KfW's ordinary on-lending scheme involving commercial banks. Some of these municipal infrastructure programs are subsidized by federal funds. Commitments for these programs decreased to EUR 4.0 billion in 2014 (2013: EUR 4.7 billion). This development was predominantly influenced by the early termination of KfW's Kita Ausbau Programm (childcare facility extension program). This program was offered exclusively in 2013, given that demand for this program exceeded expectations and the funds, which were initially –supposed to be disbursed over a three-year period, were already completely disbursed in 2013.

Global Loans and Global Funding Facilities

The following table shows Kommunal- und Privatkundenbank/Kreditinstitute's commitments designated to global loans and global funding facilities.

	Year ended December 31,		Year-to-Year
	2014	2013	% change
	(EUR in millions)		(in %)
Global funding facilities to *Landesförderinstitute*	4,626	3,599	*29*
Program-based global loans to *Landesförderinstitute*	2,245	1,766	*27*
Non program-based global loans to *Landesförderinstitute*	0	268	*-100*
Non program-based global loans to other financial institutions in Germany and Europe	1,388	1,702	*-18*
Total commitments (1)	**8,259**	**7,335**	*13*

(1) Commitments represent the volume of funds committed for loans and other business transactions (with the exception of program-based global loans to *Landesförderinstitute*) in the relevant year, including amounts to be disbursed in future years, and do not include amounts disbursed in the relevant year pursuant to commitments made in prior years. In the case of program-based global loans to the *Landesförderinstitute*, commitments represent the actual volume of funds disbursed in the relevant year.

In 2014, Kommunal- und Privatkundenbank/Kreditinstitute extended global funding facilities in the amount of EUR 4.6 billion to *Landesförderinstitute* (2013: EUR 3.6 billion). The increase compared to 2013 was mainly attributable to higher demand by *Landesförderinstitute* due to the increased attractiveness of global funding facilities in the current competitive environment.

Additionally, Kommunal- und Privatkundenbank/Kreditinstitute extended EUR 2.2 billion as program-based global loans to *Landesförderinstitute in* 2014 (2013: EUR 1.8 billion). Non program-based global loans to *Landesförderinstitute* were not provided in 2014. (2013: EUR 0.3 billion) due to the closing for new business.

Besides its commitments to *Landesförderinstitute*, Kommunal- und Privatkundenbank/Kreditinstitute grants global loans to financial institutions in Germany to refinance leasing contracts to SMEs and to selected financial institutions in Europe to refinance energy efficiency and renewable energy projects or to establish strategic cooperation in the field of SME financing. The financial institutions in turn break down the global loans and extend individual loans to SMEs and municipalities. In 2014, global loans to financial institutions in Germany and Europe amounted to EUR 1.4 billion (2013: EUR 1.7 billion), of which EUR 0.6 billion were attributable to the refinancing of leasing contracts (2013: 0.4 billion) and EUR 0.8 billion to the refinancing of European financial institutions (2013: EUR 1.3 billion).

Program for the Refinancing of Export Loans

Kommunal- und Privatkundenbank/Kreditinstitute offers commercial banks long-term refinancing of export loans covered by an official export credit guarantee ("Hermes Cover") of the Federal Government. These guarantees are managed by Euler Hermes Aktiengesellschaft and PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (together "HERMES") on behalf and for account of the Federal Government. For more information on HERMES, see "Business—Export and Project Finance (KfW IPEX-Bank)—Business." In 2014, KfW made commitments of EUR 0.7 billion (2013: EUR 0.6 billion) under this program.

Export and Project Finance (KfW IPEX-Bank)

Corporate Background

As of January 1, 2008, and in accordance with the understanding reached between the European Commission and the Federal Republic, KfW IPEX-Bank commenced operations as a legally independent entity wholly owned by KfW. For more information, see "General—Relationship with the Federal Republic—Understanding with the European Commission." KfW IPEX-Bank conducts export and project finance activities which the European Commission deemed to fall outside the scope of KfW's promotional activities directly and on its own behalf, while it conducts the promotional export and project finance activities in its own name on behalf of KfW on a trust basis. KfW provides funding for KfW IPEX-Bank at market rates based on the ratings assigned to KfW IPEX-Bank by international rating agencies.

Total assets of KfW IPEX-Bank as of December 31, 2014 amounted to EUR 26.3 billion (December 31, 2013: EUR 23.4 billion). Total outstanding loans and guarantees (including promotional activities) for KfW's business sector Export and project finance amounted to EUR 50.6 billion as of December 31, 2014 (year-end 2013: EUR 47.1 billion). KfW IPEX-Bank is headquartered in Frankfurt am Main, Germany, and maintains a branch office in London, United Kingdom and representative offices in ten locations outside Germany. As of December 31, 2014, KfW IPEX-Bank employed 645 persons (excluding managing directors, but including temporary personnel).

In accordance with the understanding with the European Commission, KfW IPEX-Bank has obtained a banking license and is subject to the KWG and the corporate tax regime. KfW IPEX-Bank is approved as an IRBA (internal ratings-based approach) bank under the Basel II rules by the relevant German supervisory authorities—the BaFin and the *Deutsche Bundesbank*. KfW IPEX-Bank has been included in the ECB's comprehensive assessment of large banks conducted in cooperation with national supervisory authorities of the member states participating in the Single Supervisory Mechanism. According to a decision taken by the ECB in September 2014, KfW IPEX-Bank does not qualify as a significant credit institution and will therefore not be supervised by the ECB. Instead, KfW IPEX-Bank will continue to be supervised by the BaFin in cooperation with *Deutsche Bundesbank*.

Business

KfW IPEX-Bank focuses on supporting the internationalization and the competitiveness of internationally active German and European companies and offers project, export and trade financing. It provides medium and long-term investment and export financing in the form of amortizing loans, guarantees or leasing financing as well as project, object and acquisition financing. KfW IPEX-Bank also offers derivative instruments to allow its clients to hedge interest and currency risk and instruments for short-term trade financing, such as participations in letters of credit.

With the consent of the German Federal Government, KfW delegated the mandate of the management of the Commercial Interest Reference Rate ("CIRR") Ship Financing Program to KfW IPEX-Bank on the basis of its expertise and many years of experience in ship financing. The program supports German shipyards in global competition and aims to strengthen Germany as a shipbuilding location. Under the CIRR Ship Financing Program, buyers of ships may obtain a fixed-rate loan based on the CIRR, which is a minimum interest rate prescribed by the OECD for officially supported financings in order to ensure competitive neutrality. In order to qualify, buyers must order the ships from a German shipyard.

For the financing bank, the CIRR Ship Financing Program provides the following incentives: First, the interest rate risk of the loan is borne by the Federal Republic over the entire term of the loan. Second, the program gives the bank access to favorable refinancing from KfW without limiting its own liquidity. Although refinancing through KfW is optional, it is generally used by the bank.

In the area of lease operations, KfW IPEX-Bank held a 50% stake in Railpool Holding GmbH & Co. KG, ("Railpool") an asset manager in rail transportation established in 2008. In early May 2014, KfW IPEX-Bank sold its stake in Railpool. KfW IPEX-Bank will continue its role as creditor for Railpool.

KfW IPEX-Bank's principal customers are German and European corporations (and their customers) with international operations and larger medium-sized companies in basic and manufacturing industries, as well as in the retail, health, telecommunications, power / renewables, water, shipping, aviation, rail, transport and social infrastructure sectors.

Traditionally, the bulk of loans extended by KfW IPEX-Bank has been used for export and project financing to buyers of German or European exports. In recent years, KfW IPEX-Bank has increasingly extended loans to finance direct investments by German enterprises and other corporate purposes linked to the internationalization of German companies. In addition, KfW IPEX-Bank co-finances large-scale infrastructure projects and means of transport (e.g., airplanes and vessels) in the German and European transport sector. KfW IPEX-Bank also provides, as part of its core business, financing for environment and climate protection projects. Finally, KfW IPEX-Bank's loans are also used to secure sources of raw materials for the German industry.

KfW IPEX-Bank's loans are generally extended directly to the ultimate borrower, and KfW IPEX-Bank grants a significant portion of these loans at its own risk. KfW IPEX-Bank regularly cooperates with other financial institutions by way of consortia and syndications. In some cases, KfW IPEX-Bank may arrange for commercial banks to assume the risk on portions of loans made by KfW IPEX-Bank through "risk-participations," for which KfW IPEX-Bank pays a fee to the bank assuming the risk. KfW IPEX-Bank is eligible to act as on-lending bank under certain of KfW's promotional programs. In 2014, KfW IPEX-Bank refinanced loan commitments for export and project finance under KfW's promotional programs in the amount of EUR 153 million (2013: EUR 193 million).

From time to time, KfW IPEX-Bank also enters into framework loan agreements with non-German banks, which enable such banks to extend loans to their customers for the purpose of importing equipment from German or other European exporters. Because the amounts of individual loans are usually small, the related transaction costs are relatively high. The framework agreements help to reduce these transaction costs.

Loans extended by KfW IPEX-Bank are usually secured by collateral and often benefit from a payment guarantee or other security arrangement. Loans extended to finance direct investments may benefit from an investment guarantee against political risk by the Federal Republic if the host country risk is assessed to be substantial.

A portion of export finance loans extended by KfW IPEX-Bank is guaranteed by the Federal Republic through HERMES, the official German export credit insurer. HERMES insurance covers up to 95%—in some instances even up to 100%—of KfW's Export and Project Finance business sector's risk, so that the risk of the portion covered is the equivalent of German government risk. HERMES also provides coverage for related deliveries from other, mainly European, countries provided that they do not exceed a certain portion of the total delivery for which an export finance loan was extended. Furthermore, KfW IPEX-Bank's financing frequently benefits from a guarantee by a foreign export credit agency or a government instrumentality in the buyer's country.

For borrowers in other European and OECD countries where the country risk is not considered high, KfW IPEX-Bank has been increasingly extending loans on the basis of ordinary banking collateral (e.g., mortgages on aircraft or ships) without seeking the benefit of HERMES or similar coverage. In addition, even when HERMES coverage is sought, KfW IPEX-Bank often extends loans on which the insured portion is less than 95%. As of December 31, 2014, outstanding loans and guarantees (including promotional activities) outside Germany for KfW's business sector Export and project finance amounted to EUR 39 billion, of which EUR 9 billion, or 23%, were export finance loans (partly) guaranteed by HERMES.

Commitments

In 2014, total commitments of export and project finance amounted to EUR 16.6 billion including commitments under the CIRR scheme for ship financing, which is supported by the federal budget (2013: EUR 13.7 billion). The following table shows commitments in KfW's business sector Export and project finance in 2014 and 2013.

	Year ended December 31,				Year-to-Year
	2014		2013		% change
	(EUR in millions)	(in % of total)	(EUR in millions)	(in % of total)	(in %)
Commercial business	9,969	*60*	9,208	*67*	*8*
Promotional business (conducted on behalf of KfW)	6,669	*40*	4,528	*33*	*47*
Total commitments (1)	**16,638**	*100*	**13,736**	*100*	*21*

(1) Commitments represent the volume of funds committed for loans and other business transactions in the relevant year, including amounts to be disbursed in future years, and do not include amounts disbursed in the relevant year pursuant to commitments made in prior years.

The following table shows KfW IPEX-Bank's commitments by sectors in 2014 and 2013:

	Year ended December 31,		Year-to-Year
	2014	2013	% change
	(EUR in millions)		(in %)
Maritime industries	2,917	2,796	*4*
Basic industries	2,698	2,010	*34*
Power, renewables and water	2,317	2,511	*-8*
Aviation and rail	2,167	1,574	*38*
Financial institutions, trade and commodity finance	2,157	2,027	*6*
Industries and services	1,862	1,787	*4*
Transport and social infrastructure	1,247	1,010	*23*
Leveraged finance, mezzanine and equity (1)	7	20	*-65*
CIRR for ship finance	1,266	0	—
Total commitments	**16,638**	**13,736**	***21***

(1) Starting in 2012, commitments with respect to leveraged finance, mezzanine and equity have generally been reported directly under the sector in which the transaction occurs. The small new commitment at year-end 2013 reflects an exceptional investment for a renewable energy project, which was not attributable to any other sector, whereas the minor new commitment in 2014 is attributable to an existing portfolio transaction in a restructuring situation.

Commitments by Sector. In 2014, total commitments increased to EUR 16.6 billion, partially driven by a few large individual transactions. In 2014, commitments of EUR 1.3 billion were provided under the federal supported CIRR scheme for ship financing (2013: EUR 0 billion) as there was more demand from potential borrowers compared to the prior year. The highest commitments were achieved in the maritime industries sector with EUR 2.9 billion, including significant individual transactions for cruise liners and offshore industry investments, followed by the Basic industries sector with EUR 2.7 billion which benefited from large single export investments, and the Power, renewables and water sector with EUR 2.3 billion reflecting KfW IPEX-Bank efforts to foster financing of environmental und climate protection transactions. Commitments under the Trade finance and Aviation and rail sectors amounted to EUR 2.2 billion each.

Commitments by Geographic Area. KfW IPEX-Bank's commitments are reported for the following three regions in 2014: Germany; Europe (excluding Germany, but including Russia and Turkey); and the rest of the world. In 2014, KfW IPEX-Bank's commitments for project and export financing (excluding CIRR for ship financing) within Germany increased to EUR 3.2 billion (2013: EUR 2.7 billion). In 2014, commitments in Europe (excluding Germany, but including Russia and Turkey) amounted to EUR 5.9 billion (2013: EUR 5.8 billion). KfW IPEX-Bank's commitments in the rest of the world increased to EUR 6.3 billion in 2014 (2013: EUR 5.2 billion). The transregional CIRR commitments for ship financing amounted to EUR 1.3 billion in 2014 (2013: EUR 0 billion).

Commitments by Product. The following table shows KfW IPEX-Bank's commitments by product in 2014 and 2013:

	Year ended December 31, 2014	Year ended December 31, 2013 (1)	Year-to-Year % change
	(EUR in millions)		(in %)
Loans (term loan and bullet)	7,796	7,078	*10*
Project finance	2,548	2,000	*27*
Revolving credit facilities for cash drawings	1,660	1,474	*13*
Trade finance	1,297	930	*39*
Guarantees	1,050	1,280	*-18*
Asset finance	481	535	*-10*
Acquisition finance	243	281	*-14*
Debt instruments	165	0	—
Lease finance	125	89	*40*
Loans to funds	0	50	*-100*
Equity investments	7	20	*-65*
CIRR for ship finance	1,266	0	—
Total commitments	**16,638**	**13,736**	*21*

(1) Commitment figures for 2013 deviate from the amounts disclosed previously, as commitments attributable to Guarantees have been reclassified from the individual product categories into the Guarantees product category.

Funding

The funds for KfW IPEX-Bank's commitments are mainly provided by KfW through borrowings in the capital markets. KfW provides funding to KfW IPEX-Bank's international project and export finance business at market rates based on the ratings assigned to KfW IPEX-Bank by international rating agencies. For those areas of export finance which the European Commission has deemed to fall within the scope of the promotional activities of KfW, funds from the ERP Special Fund may also be used for subsidizing interest rates. In 2014, EUR 460 million of loan disbursements were supported by the ERP Special Fund.

The terms of export and project finance loans funded in the capital markets are based on the cost of funds to KfW, plus a margin intended to cover the administrative cost of the loan, the credit risk and a return on capital. Because the Federal Republic is a member of the OECD, loans financed with funds from the ERP Special Fund or under the CIRR scheme for the shipping industry must comply with OECD regulations, which provide for minimum interest rates and maximum credit periods. Margins on these loans are also generally intended to cover all the risks of such loans as well as administrative costs and a return on capital. In addition, KfW IPEX-Bank charges customary banking fees for reserving and providing financing and for processing. Loans denominated in currencies other than euros are hedged through matched funding or other mechanisms.

Promotion of Developing and Transition Countries

In its promotion of developing and transition countries business, KfW, on behalf of the Federal Republic, provides financial assistance to developing countries and countries in transition, either through KfW Entwicklungsbank (KfW Development Bank), which promotes mainly public sector development cooperation activities, or through DEG, which promotes private sector investments in developing countries.

The following table sets forth KfW's commitments for its promotion of developing and transition countries business in 2014 and 2013:

PROMOTION OF DEVELOPING AND TRANSITION COUNTRIES COMMITMENTS

	Year ended December 31,		Year-to-Year
	2014	2013	% change
	(EUR in millions)		(in %)
KfW Entwicklungsbank	7,356	5,268	*40*
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	1,473	1,450	*2*
Total commitments	**8,829**	**6,718**	*31*

KfW Entwicklungsbank (KfW Development Bank)

Under the brand name KfW Entwicklungsbank, KfW acts as the Federal Republic's international development bank, extending loans and disbursing grants mainly to foreign public sector borrowers and recipients. In 2014, approximately 23% of these loans and grants were refinanced from federal budget funds provided to KfW. All of KfW's international development activities are made according to instructions from the Federal Government. Mandates and all funds from the Federal Government involved in loan commitments and grants do not, by their nature, appear on KfW's consolidated statement of financial position.

KfW extends financial cooperation loans in three ways:

- Traditional Financial Cooperation Loans (*FZ-Standardkredite*) that are extended for the account of the Federal Republic;
- Financial Cooperation Development Loans (*FZ-Entwicklungskredite*), in which KfW offers its own funds as an additional source of financing. For these loans, federal budget funds at low interest rates or grant funds are combined with funds from KfW that are refinanced in the capital markets. Roughly 76% of the portion refinanced with KfW funds is guaranteed either by a special guarantee facility of the Federal Republic or by export credit agencies. Interest rates and related terms of Financial Cooperation Development Loans are significantly more favorable to the borrower than market terms and, therefore, meet the requirements for recognition as official development assistance ("ODA"); and
- Financial Cooperation Promotional Loans (*FZ-Förderkredite*), which are funded solely through funds raised by KfW in the capital markets. Since 2012, *FZ-Förderkredite* have been eligible for guarantees by a special guarantee facility of the Federal Republic. They may also meet the requirements for recognition as ODA as they offer more favorable terms to the borrower than market terms.

Generally, interested foreign governments submit applications for financial cooperation to the Federal Government, which then asks KfW to appraise the proposed projects. In the case of Financial Cooperation Promotional Loans, project sponsors may submit their proposals directly to KfW. KfW maintains a staff of economists, engineers and other specialists to assist in the appraisal and development of projects. KfW receives fees from the Federal Republic for loans and grants extended for the account of the Federal Government and Financial Cooperation Development Loans, calculated as a percentage of outstanding loans and grants, as far as they are financed out of the federal budget. Based on KfW's appraisal and its recommendation, the Federal Republic decides whether it funds a particular project. Upon a favorable decision and upon determination of the terms and conditions of financing, KfW enters into a loan or grant agreement with the recipient country or, if applicable, the individual agency responsible for the project, in which case the obligations under that agreement would then usually be fully guaranteed by the respective recipient country.

Financial cooperation loans and grants are disbursed according to the progress of the relevant project, and KfW monitors the utilization of funds in order to verify compliance with the provisions of the loan or grant agreement.

The following table shows KfW Entwicklungsbank's commitments in 2014 and 2013:

KFW ENTWICKLUNGSBANK COMMITMENTS

	Year ended December 31, 2014	Year ended December 31, 2013	Year-to-Year % change
	(EUR in millions)		(in %)
Loan commitments	5,526	3,244	*70*
of which federal funds	168	198	*-15*
of which KfW's funds refinanced in the capital markets	5,358	3,046	*76*
Grant commitments	1,490	1,618	*-8*
Mandates (1)	340	406	*-16*
Total commitments	**7,356**	**5,268**	*40*

(1) Mandates are grants funded by governmental or supranational entities and distributed using KfW's expertise and channels.

Total commitments of KfW Entwicklungsbank increased by 40% to EUR 7,356 million in 2014 (2013: EUR 5,268 million) due to increased loan commitments especially in the economic infrastructure sector. The relative share of loan commitments that were refinanced in the capital markets increased to 97% in 2014 (2013: 94%).

In 2014, Asia accounted for 30% of KfW Entwicklungsbank's commitments; sub-Saharan Africa, for 17%; Middle East/North Africa, for 18%; Europe/Caucasus, for 11%; Latin America, for 16%; and trans-regional commitments accounted for 7%.

The following table shows KfW Entwicklungsbank's commitments by sector in 2014:

	Year ended December 31, 2014 (EUR in millions)	Year ended December 31, 2014 (in % of total)
Economic infrastructure	2,950	*40*
Social infrastructure	1,589	*22*
Financial sector	1,408	*19*
Production sector	396	*5*
Others (1)	1,013	*14*
Total commitments	**7,356**	*100*

(1) Consists of commitments made for multi-sector projects and emergency assistance in crisis situations.

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

DEG, a German limited liability corporation, is a legally independent entity founded in 1962. DEG is based in Cologne, Germany. In 2001, KfW acquired DEG from the Federal Republic. Since then, DEG has been fully consolidated in KfW's consolidated financial statements. As of December 31, 2014, DEG maintained 13 representative offices in developing or transition countries. In 2014, DEG employed an average of 501 persons (2013: 484). At year-end 2014, DEG's total assets amounted to EUR 5.3 billion (2013: EUR 4.8 billion).

DEG's activities extend to various countries in Africa, Asia, Latin America, and Central and Eastern Europe. DEG aims to establish and expand private enterprise structures in these countries as a contribution to sustainable growth and lasting improvement in the living conditions of the local population. To this end, DEG provides long-term financing for private enterprises investing in developing countries. In addition, DEG offers customized consultancy services on a project-by-project basis.

DEG pursues four key economic aims in its private sector development policy:

- promoting direct investment, including through DEG's own venture capital activity;
- providing long-term debt financing to investment projects;

- investing in future markets; and
- strengthening local capital markets through financial sector development.

DEG conducts its activities in cooperation with commercial banks rather than in competition with them. In its activities, DEG acts in accordance with commercial principles. Accordingly, it does not provide subsidized financing, but instead offers financing solely on commercial terms and conditions. DEG also seeks to mobilize other partners in order to raise additional capital for investments in its projects.

As an instrumentality serving public policy objectives of the Federal Government, DEG has been granted a favorable tax status under which only part of DEG's activities are subject to corporate income tax. DEG does not distribute profits but instead re-channels them into new investments.

DEG's obligations do not benefit from the Guarantee of the Federal Republic or from *Anstaltslast*, and while DEG's indebtedness is reflected in KfW's consolidated statement of financial position, its debt represents obligations of DEG and not of KfW. KfW and DEG have a refinancing agreement in place, pursuant to which KfW acts as sole issuer in the capital markets and provides DEG with mid- and long-term capital market funds according to DEG's capital needs. In addition, internal agreements have been reached concerning the respective fields of business activities, the mutual use of offices abroad, joint public relations activities and joint information technology management.

The following table shows DEG's commitments in 2014 and 2013:

DEG COMMITMENTS

	Year ended December 31,		Year-to-Year
	2014	2013	% change
	(EUR in millions)		(in %)
Loans	806	878	*-8*
Equity participations	380	329	*16*
Mezzanine financing	286	243	*18*
Guarantees	1	—	—
Total commitments	**1,473**	**1,450**	*2*

Capital Markets

KfW's Capital markets business sector comprises the group's treasury activities, including its funding activities and its financial asset management. Furthermore, this business sector manages KfW's ABS (asset-backed securities) and ABCP (asset-backed commercial paper) Portfolio, which are part of KfW's promotional activities, as well as other capital markets-related activities currently consisting of privatization initiatives relating to Deutsche Telekom AG ("Deutsche Telekom") and Deutsche Post AG ("Deutsche Post") and the provision of a loan facility to Greece on behalf of the Federal Government.

Funding

KfW's principal sources of funds are the international financial markets and public funds, with the majority of lending in its business sectors being financed from funds raised by KfW in the international financial markets. The group's consolidated balance sheet total at year-end 2014 was EUR 489.1 billion. EUR 434.2 billion, or 89% of this amount, was financed through borrowings (i.e., from financial market funds or public funds). In addition, at year-end 2014, KfW had EUR 17.8 billion in liabilities held in trust (i.e., for which the Federal Government provides the funding and assumes all risks), which do not appear on KfW's consolidated statement of financial position. In line with the focus on mid-term and long-term loans within its loan portfolio resulting from its promotional business, approximately 72% of KfW Group's total borrowings outstanding at the end of 2014 had remaining maturities of one year or more.

Financial-Market Funds. KfW raises short-term and long-term funds in the international financial markets through the issuance of bonds and notes (including commercial paper) and by incurring loans against debt certificates (*Schuldscheindarlehen* or "promissory note loans"). Long-term funding with initial maturities of more than one year (referred to as "capital-market funding" below) represents the most important source of funding. Short-term borrowings with initial maturities of less than one year in the form of commercial paper (referred to as "money-market funding" below) are primarily used for purposes of KfW's liquidity management. The percentage of capital-market funding outstanding of total financial-market funds outstanding was 92% at the end of 2014.

All amounts stated in connection with KfW's capital- and money-market funding transactions or funding volume are, unless stated otherwise, based on net proceeds to KfW, which are calculated as principal amount less discount and underwriting commissions, if any.

Capital-Market Funding. KfW's capital-market funding policy pursues a dual objective: to achieve the most favorable terms possible for funds raised in the capital markets; and to minimize, to the extent practicable, the effects of changes in interest rates and foreign exchange rates mainly through interest rate and currency risk hedging instruments and, to a more limited extent, by matching funding liabilities with loan assets. In order to achieve favorable terms for funds raised, KfW maintains an active presence in all major capital markets and utilizes a broad range of funding instruments in various currencies, covering a wide range of maturities.

KfW's capital-market funding is based on three pillars: its "benchmark" bond programs (in euro and U.S. dollar); publicly-placed bonds outside the benchmark programs; and "private placements," which is a term KfW uses in the commercial sense to refer to sales to a specific investor or a limited number of investors.

In 2014, KfW started to issue green bonds as part of its "publicly-placed bonds" pillar. KfW aims to broaden its investor base by addressing socially responsible investors and to enhance capital markets' infrastructure to finance environmental projects. KfW's green bonds are linked to KfW's Erneuerbare Energien Standard Programm (Renewable Energies – Standard Program). While net proceeds from the sale of KfW green bonds are used in KfW's general business, KfW simultaneously allocates an amount equal to the net proceeds of the green bonds to an internal account designated for "green bond" issuances. The balance of this internal account is completely reduced by amounts matching requests for disbursements under KfW's "Renewable Energies – Standard Program" during the then current calendar year.

KfW's Green Bond Issues 2014

	Aggregate principal amount in billions	Initial maturity (in years)	Interest rate in % per annum
KfW EUR Green Bond	1.5 EUR	5	0.375
KfW USD Green Bond	1.5 USD	5	1.750

In 2014, benchmark bonds accounted for a funding volume of EUR 32.5 billion, or 57%, of KfW's total capital-market funding. The two other funding sources accounted for EUR 22.7 billion, or 39%, and EUR 2.3 billion, or 4%, respectively. Total capital-market funding in 2014 amounted to EUR 57.4 billion (2013: EUR 65.4 billion).

In 2014, KfW's total new capital-market funding was raised in 13 different currencies and approx. 250 separate capital market transactions. KfW's core currencies are the euro and the U.S. dollar, which together accounted for 83% of KfW's total new capital-market funding in 2014 (2013: 87%). The volume of new funds raised in Australian dollar increased from 4% to 5%, making it KfW's third most significant funding currency in 2014. The volume of pound sterling and Japanese yen funding increased to 5% (2013: 2%) and 3% (2012: 2%), respectively.

KfW's Total New Capital-Market Funding Volume 2014 by Currencies

	EUR in billions	In % of total
Euro (EUR)	25.8	*45*
U.S. dollar (USD)	21.7	*38*
Australian dollar (AUD)	3.1	*5*
Pound sterling (GBP)	3.0	*5*
Japanese yen (JPY)	1.5	*3*
Other currencies (e.g., CAD, BRL and TRY)	2.4	*4*
Total	**57.4**	*100*

KfW expects its volume of funding to be raised in the capital markets in 2015 to be in a range of EUR 55 billion to EUR 60 billion.

The most important sources of capital-market funding for KfW are bond and note issues followed by promissory note loans. At year-end 2014, the amount of outstanding bonds and notes issued by KfW totaled EUR 370.0 billion, representing a EUR 9.8 billion increase from EUR 360.2 billion outstanding at year-end 2013.

In 2014, KfW sold four bond issues in an aggregate principal amount of EUR 16 billion under its euro benchmark program and five note issues in an aggregate principal amount of USD 22.0 billion under its U.S. dollar benchmark program. In addition to the benchmark issues, three additional series of global notes denominated in U.S. dollar and Canadian dollar were issued by KfW in 2014.

KfW's Benchmark Bond Issues in 2014

	Aggregate principal amount in billions	Initial maturity (in years)	Interest rate in % per annum
U.S. $-Benchmark I/2014	USD 4.0	5	1.875
U.S. $-Benchmark II/2014	USD 4.0	3	0.750
U.S. $-Benchmark III/2014	USD 6.0	2	0.500
U.S. $-Benchmark IV/2014	USD 3.0	3	0.875
U.S. $-Benchmark V/2014	USD 5.0	10	2.500
Euro-Benchmark I/2014	EUR 5.0	7	1.625
Euro-Benchmark II/2014	EUR 4.0	3	0.875
Euro-Benchmark III/2014	EUR 4.0	5	1.500
Euro-Benchmark IV/2014	EUR 3.0	10	0.050

Of outstanding borrowings, promissory note loans continue to be KfW's second most important capital-market funding instrument, with EUR 8.7 billion outstanding at year-end 2014. Of this amount, EUR 2.4 billion was included on KfW's consolidated statement of financial position in liabilities to banks and EUR 6.3 billion in liabilities to customers. Promissory note loans are a special instrument of the German capital market, under which the lending entity (generally a bank, insurance company or public pension fund) receives a certificate evidencing its loan to the borrower and the terms of such loan. Maturities on promissory note loans range from one to 30 years, thereby providing a high degree of flexibility to both the borrower and the lender. Transferable only by way of assignment, promissory note loans have only limited liquidity in the interbank secondary market.

The following table sets forth summary information concerning KfW's outstanding bonds and notes as well as promissory note loans with an initial maturity of more than one year and issued in the capital markets.

INFORMATION ON ISSUES OF FUNDED DEBT OF KFW GROUP
(AS OF DECEMBER 31, 2014)

Currency	Number of transactions	Interest type	Average interest rate in % per annum (1) (2)	Years of issue	Maturities	Average years to maturity (2)	Aggregate principal amount outstanding in applicable currency	Aggregate principal amount outstanding in EUR (3)
AUD	27	FIXED	5.50	2005-2014	2015-2025	3.83	29,446,460,000.00	19,857,347,090.18
AUD	2	FLOATING	3.07	2011-2014	2016-2019	2.28	500,000,000.00	337,177,152.88
BRL	16	FIXED	7.70	2006-2014	2015-2020	1.43	5,295,990,000.00	1,641,632,956.73
CAD	13	FIXED	2.99	2005-2014	2015-2037	4.98	5,852,200,000.00	4,161,416,482.98
CHF	8	FIXED	2.64	2005-2010	2016-2037	7.35	3,105,000,000.00	2,582,335,329.35
CNY	2	FIXED	1.44	2013-2014	2015-2016	1.24	1,120,000,000.00	148,303,120.99
DEM	1	FIXED	7.00	1993	2023	8.25	105,985,000.00	54,189,270.03
EUR	229	FIXED	2.21	1986-2014	2015-2044	4.05	158,267,373,790.94	158,267,373,790.94
EUR	115	FLOATING	1.06	1999-2014	2015-2073	6.19	10,018,168,368.89	10,018,168,368.89
GBP	18	FIXED	4.25	2000-2014	2015-2037	5.78	19,431,687,000.00	24,947,601,746.05
GBP	10	FLOATING	0.66	1999-2013	2015-2041	1.05	2,120,470,982.71	2,722,391,812.44
HKD	2	FIXED	4.44	2004	2015-2017	1.66	435,000,000.00	46,193,055.12
ISK	1	FIXED	7.75	2007	2017	2.39	500,000,000.00	3,240,440.70
JPY	24	FIXED	2.47	1995-2014	2015-2038	12.47	201,491,000,000.00	1,387,392,412.01
JPY	462	FLOATING	2.31	1996-2014	2015-2044	13.89	566,425,000,000.00	3,900,192,797.99
MYR	1	FIXED	3.98	2007	2017	2.07	250,000,000.00	58,891,427.76
NOK	23	FIXED	4.29	2002-2013	2015-2036	4.18	30,735,000,000.00	3,399,137,359.01
NOK	2	FLOATING	1.57	2011	2015-2016	1.01	5,000,000,000.00	552,975,005.53
NZD	6	FIXED	4.47	2005-2014	2015-2020	2.32	1,950,000,000.00	1,256,038,647.36
PEN	1	FIXED	5.62	2010	2017	2.19	75,000,000.00	20,662,864.70
PLN	1	FIXED	4.50	2006	2025	10.11	71,105,030.65	16,639,761.92
RUB	2	FIXED	6.96	2012	2016-2017	1.68	8,500,000,000.00	117,505,564.23
SEK	11	FIXED	3.94	2006-2011	2015-2031	4.60	32,400,000,000.00	3,449,377,195.78
SEK	5	FLOATING	0.58	2008-2013	2015-2020	2.59	5,600,000,000.00	596,188,651.12
TRY	14	FIXED	6.89	2007-2014	2015-2019	1.88	3,253,640,000.00	1,148,884,180.80
USD	96	FIXED	2.10	1995-2014	2015-2045	4.05	135,269,319,463.48	111,415,303,075.09
USD	25	FLOATING	0.34	2005-2014	2015-2023	0.91	6,224,639,399.22	5,126,957,745.85
ZAR	8	FIXED	6.14	2005-2014	2015-2020	1.99	6,600,000,000.00	470,242,887.59
Total	**1,125**					**4.29**		**357,703,760,194.02**

(1) Interest rate of floating rate note means the applicable interest rate as of December 31, 2014. For floating rate notes with interest rates that are fixed in arrears the latest fixed interest rate was used. Zero coupon bonds are included in the calculation with their average effective interest rates.

(2) Averages have been calculated on a capital-weighted basis taking into account the aggregate principal amount outstanding in euro.

(3) Conversion into euro at the spot rate using the European Central Bank reference rates on December 31, 2014.

Money-Market Funding. Commercial paper is issued under two commercial paper programs: the EUR 40 billion multicurrency commercial paper program, which KfW intends to increase to EUR 50 billion in the near future, and the USD 10 billion commercial paper program. The multicurrency commercial paper program represents the most important source of short-term liquidity for KfW. As of December 31, 2014, KfW Group's commercial paper outstanding totaled EUR 34.0 billion (year-end 2013: EUR 25.3 billion).

Public Funds. The proportion of public funds in the group's borrowings was 1% at the end of 2014. The most important source of public funds for KfW is the budget of the Federal Republic. Total long-term and short-term borrowings from funds provided by the federal budget (excluding loans on a trust basis) amounted to EUR 5.2 billion as of December 31, 2014. The group's long-term and short-term borrowings from the ERP Special Fund amounted to EUR 173 million as of December 31, 2014. Public funds are made available to the group for use in special categories of KfW's domestic activities and certain export and project finance transactions with developing countries. Public funds are particularly important in the area of financial cooperation, where KfW Entwicklungsbank extends loans and disburses grants to foreign public sector borrowers and recipients in developing and transition countries. Public funds constituted approximately 23% of the sources of funding for KfW Entwicklungsbank's commitments in 2014.

Derivatives

KfW generally enters into derivatives transactions for hedging purposes in connection with its financing and funding activities. Accordingly, the substantial majority of its derivatives are interest- or currency-related derivatives. KfW Group does not enter into derivatives for trading purposes and does not facilitate the purchase of derivatives on behalf of any entities outside the group through brokerage or similar agency activities.

The following tables provide detailed information on the group's derivatives exposures:

KFW GROUP'S DERIVATIVES EXPOSURE

	Notional value As of December 31,		Fair value As of December 31, 2014		Fair value As of December 31, 2013	
	2014	2013	Positive	Negative	Positive	Negative
	(EUR in millions)		(EUR in millions)		(EUR in millions)	
Interest-related derivatives	467,585	456,567	20,942	24,933	16,223	18,508
Currency-related derivatives (1)	218,125	212,058	17,385	3,516	7,540	9,699
Credit derivatives as protection buyer	—	—	—	—	—	—
Miscellaneous	0	11	1	0	3	3
Total derivatives (2) (3)	**685,711**	**668,636**	**38,329**	**28,449**	**23,766**	**28,210**
Embedded derivatives accounted for separately	—	—	134	21	134	4
Total balance sheet items "derivatives subject to hedge accounting" and "other derivatives"	**685,711**	**668,636**	**38,463**	**28,470**	**23,900**	**28,214**

(1) Includes cross-currency swaps.

(2) Includes derivative financial instruments which are offered by KfW's wholly-owned subsidiary KfW IPEX-Bank to its customers as hedging instruments in connection with, and related to, financing in the context of its export and project financing activities. In order to hedge the risk arising from these derivative transactions, KfW IPEX-Bank enters into hedging transactions with KfW. In the context of centralizing and aggregating market-facing hedging activities within the group at the parent level, KfW, in turn, hedges itself with corresponding offsetting transactions in the market to the extent necessary. These risk-mitigating hedging transactions entered into by KfW are also disclosed.

(3) Includes derivative contracts in closed risk positions entered into pursuant to special mandates by the Federal Government in accordance with article 2 paragraph 4 of the KfW Law.

	As of December 31, 2014	As of December 31, 2013
	(EUR in millions)	
Total positive fair value before netting	**38,329**	**23,766**
Total positive fair value after netting (1)	**16,718**	**8,259**
Collateral received	14,062	7,573
of which cash collateral	*13,922*	*7,573*
Total positive fair value after netting and collaterals	**2,656**	**686**

(1) Presents the effects of netting agreements that do not fulfill the offsetting criteria under IFRS. Due to the strict criteria for offsetting financial instruments under IAS 32, KfW Group's consolidated statement of financial position does not reflect any netting effects with respect to its derivatives.

KfW Group's derivatives activities are reflected in its consolidated statement of financial position in the line items "derivatives used for hedge accounting" and "other derivatives." For additional information on KfW Group's derivatives exposure, see notes 9, 10, 11, 45, 46, 57, 58 and 73 to the financial statements included in Exhibit (e) to this annual report. For more information on interest and currency risks related to derivatives as well as counterparty default risks, see "Group management report—Risk report—Types of risk—Market price risk" and "—Counterparty default risk," respectively, included in Exhibit (e) to this annual report.

Asset Management

As of December 31, 2014, KfW Group held financial assets in an amount of EUR 30.7 billion (year-end 2013: EUR 30.6 billion). See "Group management report—Economic report—Development of net assets" included in Exhibit (e) to this annual report for more information concerning financial assets. EUR 23.9 billion, or 78%, of all financial assets were held in the form of fixed income securities for liquidity purposes. The remaining financial assets were securities held as surrogate for loans or as equity investments in the context of KfW's promotional business (e.g., ABS and ABCP Portfolio or DEG's direct investments). Finally, equity participations held, directly or indirectly, by KfW made up only a very limited amount of the group's financial assets.

Liquidity Portfolio. KfW pursues a conservative liquidity management strategy. For this purpose, KfW holds financial assets in its liquidity portfolio. The bulk of securities held in this portfolio are denominated in euro, with the remainder denominated in U.S. dollar. For its liquidity portfolio, which KfW holds as liquidity reserve, KfW purchases medium-term securities issued by banks, primarily covered bonds (*Pfandbriefe*), bonds of public sector issuers and supranational institutions or agencies as well as asset backed securities. The bulk of euro-denominated bonds included in KfW's liquidity portfolio is eligible as collateral with the European Central Bank and enables KfW to enter into repurchase agreements in refinancing operations within the European System of Central Banks via the *Deutsche Bundesbank*. At the end of 2014, KfW held securities in the aggregate amount of EUR 23.9 billion in its liquidity portfolio. For financial reporting purposes, securities denominated in U.S. dollar were converted into euro at the currency exchange rate as of December 31, 2014. In addition to these securities, as of December 31, 2014, KfW held money-market assets (overnight and term loans as well as reverse repurchase transactions) for liquidity management purposes in the amount of EUR 28.1 billion.

Investments in the ABS and ABCP Portfolio. In 2014, KfW provided EUR 1.2 billion (2013: EUR 0.7 billion) for financing SMEs by investing in senior tranches of securitized assets (e.g., SME lease and loan portfolios) as well as asset-backed commercial paper in order to enable SMEs to benefit from sustainable and stable refinancing. As of December 31, 2014, the overall ABS and ABCP portfolio volume amounted to EUR 1.8 billion.

Investments in Green Bond Portfolio. In order to complement KfW's sustainability strategy, KfW intends to set up a green bond portfolio over the coming years with a targeted volume of up to EUR 1.0 billion. Whether and when investments will be made will depend on supply, quality and prevailing market conditions.

Privatization Initiatives

KfW has been mandated by the Federal Government to take measures with respect to the privatization of Deutsche Telekom and Deutsche Post. Pursuant to a special mandate by the Federal Government and in accordance with article 2 paragraph 4 of the KfW Law (*Zuweisungsgeschäft*), KfW has acquired and sold shares of both Deutsche Telekom and Deutsche Post in various transactions since 1997. In furtherance of the privatization initiatives of the Federal Government, KfW sold those shares through German and international public offerings, private placements, block trades, exchangeable bonds and other transactions. Pursuant to an arms-length agreement with the Federal Government, KfW is protected against the market risk of these transactions. The agreement provides that KfW will receive a percentage of any market value increase in the shares acquired and sold, plus a fee for its services.

In the case of Deutsche Telekom, on May 15, 2014, the shareholders' meeting resolved to pay out a dividend of EUR 0.50 per share for 2013. As in the previous year, shareholders were given the choice to receive dividends in cash or in shares. KfW received new shares from the scrip dividend and increased its total ownership interest in Deutsche Telekom to approximately 791.2 million ordinary registered shares compared to its total ownership interest of 774.9 million ordinary registered shares as of December 31, 2013. After distribution of the scrip dividend, KfW's stake in Deutsche Telekom remained nearly unchanged at approximately 17.4% as of June 17, 2014, which also represents the stake at year-end 2014 (December 31, 2013: 17.4%). To KfW's knowledge, the stake of the Federal Republic of Germany declined to approximately 14.3% compared to 14.5% as of December 31, 2013.

At year-end 2014, KfW's total shareholding in Deutsche Post had remained unchanged compared to year-end 2013 at approximately 21.0%.

To KfW's knowledge, the Federal Republic does not hold any shares directly in Deutsche Post.

Given the above-mentioned agreement with the Federal Government, KfW's holdings in shares of Deutsche Post and Deutsche Telekom are not included in financial assets, but are presented on KfW's consolidated statement of financial position as loans and advances to customers.

The Federal Government may sell further stakes in Deutsche Telekom to KfW in the future. KfW expects its holdings in Deutsche Telekom and Deutsche Post shares to be reduced in the medium term.

Loan Facility to Greece Mandated by the Federal Government

KfW supports the Federal Republic in conducting EU-wide financial support measures for Greece. In 2010, the Federal Government mandated KfW in accordance with article 2 paragraph 4 of the KfW Law (*Zuweisungsgeschäft*) to participate in a loan facility to Greece on behalf of the Federal Republic. All risks resulting from this loan facility are covered by a guarantee of the Federal Republic. As of December 31, 2014, the total amount outstanding of this loan to Greece amounted to EUR 15.2 billion.

Strategic Shareholdings

KfW's most important strategic shareholdings are DEG, which is held directly by KfW, and KfW IPEX-Bank, which is held indirectly via KfW IPEX-Beteiligungsholding GmbH. KfW Beteiligungsholding GmbH, a direct subsidiary of KfW, holds several other strategic subsidiaries and equity participations. At year-end 2014, important assets of KfW Beteiligungsholding GmbH consisted of 100% stakes in Finanzierungs- und Beratungsgesellschaft mbH, ASTRA-Grundstücksgesellschaft mbH (in liquidation) and tbg Technologie-Beteiligungs-Gesellschaft mbH.

Airbus Group (EADS N.V.)

In 2007, KfW, together with 14 other investors, agreed to acquire jointly from DaimlerChrysler group (now Daimler group) a stake of, at that time, 7.5% in European Aeronautic Defence and Space Company N.V. ("EADS"), of which the economic interest was held through the special purpose vehicle Dedalus GmbH & Co. KGaA ("Dedalus"). In connection with a further reduction by the Daimler group of its stake in EADS in December 2012, the Federal Government, which regards the ownership structure of EADS as a matter of strategic national interest, agreed on a revised government shareholding agreement with EADS, France and Spain, which allows it to directly or indirectly own an equity stake of up to 12% in EADS. In this context, the Federal Government mandated KfW to directly or indirectly acquire and hold an equity stake of up to 12% in EADS on behalf of the Federal Republic.

At the beginning of April 2013, France, Germany and Spain entered into a supplemental shareholders' agreement, which provided for the dissolution of the Dedalus consortium and for KfW and the remaining investors to hold their respective equity stakes in EADS directly and indirectly through Gesellschaft zur Beteiligungsverwaltung GZBV mbH & Co. KG ("GZBV"). At the end of 2013, GZBV had increased its equity stake in EADS by buying approximately 1.87 million shares. In 2014, EADS changed its legal name to Airbus Group N.V. ("Airbus"). At year-end 2014, KfW held, through GZBV, an equity stake of approximately 9.21% in Airbus. Together with the other investors' interests in GZBV, this equalled a total equity stake of 10.92% in Airbus.

KfW's investments in Airbus were made pursuant to a special mandate of the Federal Government in accordance with article 2 paragraph 4 of the KfW Law, which authorizes the Federal Government to direct KfW to take measures in connection with matters in which the Federal Republic has an interest (*Zuweisungsgeschäft*). KfW is fully protected by the Federal Republic against any economic risks resulting from its total investment in Airbus.

CAPITALIZATION

CAPITALIZATION OF KFW GROUP AS OF DECEMBER 31, 2014

	(EUR in millions)
Borrowings	
Short-term funds	34,213
Bonds and other fixed-income securities	370,034
Other borrowings	27,685
Subordinated liabilities (1)	2,247
Total borrowings	434,179
Equity	
Paid-in subscribed capital (2)	3,300
Capital reserve (3)	7,197
Reserve from the ERP Special Fund	1,191
Retained earnings	10,019
Fund for general banking risks	500
Revaluation reserve	-608
Total equity	21,598
Total capitalization	**455,777**

(1) Includes assets transferred from the ERP Special Fund in form of a subordinated loan of EUR 2,247 million.

(2) KfW's equity capital, 80% of which is held by the Federal Government and the remaining 20% by the *Länder*, amounted to EUR 3,750 million in 2014, of which EUR 3,300 million has been paid in pro rata by the Federal Government and the *Länder*.

(3) Includes equity capital in form of promotional reserves (*Förderrücklage*) from the ERP Special Fund of EUR 5,900 million.

MANAGEMENT AND EMPLOYEES

The bodies of KfW are the Executive Board (*Vorstand*) and the Board of Supervisory Directors (*Verwaltungsrat*).

Executive Board

The Executive Board is responsible for the day-to-day conduct of KfW's business and the administration of its assets. Typically, members of the Executive Board are initially appointed for a maximum of three years by the Board of Supervisory Directors. After the first term each member may be repeatedly reappointed for, or his or her term of office may be repeatedly extended by, up to five years by the Board of Supervisory Directors. Each member of the Executive Board is responsible for certain aspects of KfW's activities but shares the responsibility for actions taken by the Executive Board.

In April 2014, Dr Ingrid Hengster joined KfW's Executive Board as successor of Dr. Axel Nawrath, whose contract expired in March 2014. In July 2014, Bernd Loewen started his second term as member of KfW's Executive Board. In September 2014, Dr Edeltraud Leibrock informed KfW's Board of Supervisory Directors that she does not intend to serve a second term as member of KfW's executive board. Dr Leibrock's current term ends in September 2015.

In light of the bank regulatory requirements for risk management systems set forth in the KWG and MaRisk, KfW plans to separate the chief financial officer and chief risk officer responsibilities, which are currently both headed by Mr Loewen, in the near future. After the separation, Mr Loewen will focus on Accounting and Information Technology and will act as Chief Financial Officer of KfW.

The following biographical information on the current members of the Executive Board includes their ages as of April 16, 2015, the year in which they were appointed, and their current positions and areas of responsibility.

Dr Ulrich Schröder

Age: 63

Dr Ulrich Schröder joined KfW Group as Chief Executive Officer of KfW's Executive Board in September 2008. He is in charge of Management Affairs and Communication, Group Development and Economics, Internal Auditing, Compliance, and Sustainability. Dr Schröder's current tenure will end in 2017.

Dr Schröder studied law and business administration at the University of Münster, Germany, and received his doctorate in law in 1983. He joined Westdeutsche Landesbank Girozentrale (WestLB), Düsseldorf/Münster, Germany, in 1983. Following various management positions, amongst others in the corporate clients unit, as a branch manager and board member of WestLB France, Paris, and as the manager of WestLB's chemicals/life sciences unit, he was appointed to the Managing Board of WestLB in April 2002. In August 2002, he joined the Managing Board of the newly established NRW.BANK, Düsseldorf/Münster, Germany, and was appointed Chairman of the Managing Board in 2006.

Dr Schröder is a member of the Supervisory Boards of Deutsche Post AG, Bonn, Germany, Deutsche Telekom AG, Bonn, Germany, DEG, Cologne, Germany, and the "2020 European Fund for Energy, Climate Change and Infrastructure," Luxembourg.

In addition, Dr Schröder is a member of the Advisory Board of HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, and a member of the Economic Advisory Board of Fraport AG, Frankfurt am Main, Germany.

Dr Günther Bräunig

Age: 59

Dr Günther Bräunig became a member of KfW's Executive Board in October 2006. He is in charge of Financial Markets, Central Services, Human Resources, and Legal Affairs. Dr Bräunig's current tenure will end in 2016.

Dr Bräunig joined KfW Group in September 1989 to head the International Capital Market department. He subsequently held management positions in the Credit Affairs department and the Management Affairs department. In 1996, he became Senior Vice President and Head of Management Affairs. In May 2000, he was appointed Executive Vice President of KfW. Between August 2007 and October 2008 he served as Chief Executive Officer of IKB Deutsche Industriebank AG, Düsseldorf, Germany, while this bank was bailed out and subsequently sold by KfW, which at that time was IKB's major shareholder. During the period of this latter appointment, Dr Bräunig temporarily ceased to perform his functions as member of the Executive Board of KfW.

Dr Bräunig studied law at the Universities of Mainz, Germany, and Dijon, France, and obtained a doctorate in law at the University of Mainz, Germany. His professional career began in 1984 with COMMERZBANK Aktiengesellschaft, Frankfurt am Main, Germany, in the Investment Banking department. Between 1986 and 1989, he worked for Airbus Industrie S.A.S. as Sales Finance Director in Toulouse, France and Washington, D.C., USA.

Dr Bräunig serves as chairman of the Supervisory Boards of pbb Deutsche Pfandbriefbank AG, Munich, Germany, and Hypo Real Estate Holding AG, Munich, Germany. He is also member of the Strategic Committee of AFT (Agence France Tresor), Paris, France, and Chairman of the Advisory Council of True Sale International GmbH, Frankfurt am Main, Germany.

Dr Ingrid Hengster

Age: 54

Dr Ingrid Hengster became a member of KfW's Executive Board in April 2014. She is responsible for Domestic Promotional Business (Mittelstandsbank, Kommunal- und Privatkundenbank/Kreditinstitute), Sales, New Business Credit Service and Environmental Issues. Dr Hengster's current tenure will end in 2018.

Dr Hengster holds a Ph.D. in Law from the University of Salzburg, Austria. Dr Hengster started her career as project manager at Oesterreichische Kontrollbank AG, Austria, in 1984. In 1986, she joined COMMERZBANK Aktiengesellschaft where she became Vice President in the privatization and project finance group. From 1995 to 1998, Dr Hengster served as Head of Acquisition Financing and Structured Financing in the German practice of UBS Deutschland AG. Subsequently, she worked as Managing Director of the investment banking arm of Credit Suisse First Boston. In 2005, she joined ABN AMRO Bank (Deutschland) AG as CEO and Country Executive & Head of Global Clients Germany and Austria. From 2008 to 2014, Dr Hengster was Country Executive Germany, Austria & Switzerland of The Royal Bank of Scotland and CEO of the management board of The Royal Bank of Scotland (Deutschland) AG. Dr Hengster is member of the supervisory board of ThyssenKrupp AG, Essen, Germany. Additionally, she serves as expert on the board of directors of the European Investmentbank, Luxemburg.

Dr Norbert Kloppenburg

Age: 58

Dr Norbert Kloppenburg became a member of KfW's Executive Board in January 2007. He is in charge of International Finance (KfW Entwicklungsbank, DEG, Export and project finance). Dr Kloppenburg's current tenure will end in 2016.

Dr Kloppenburg joined KfW Group in 1989 as Project Manager in the West Africa department of KfW Entwicklungsbank. In 1998, he became First Vice President and Head of the Export and Project Finance, Energy and Environmental Technology department. In 2002, he became Senior Vice President and Head of the Asia and Europe department of KfW Entwicklungsbank.

Dr Kloppenburg studied agricultural economics and social sciences at the University of Bonn, Germany and obtained an agricultural doctorate there. From 1982 until 1989, Dr Kloppenburg worked as a consultant for the Ministry of Planning in Bujumbura, Burundi. From 1985 to 1989, he worked as a representative of the German Konrad-Adenauer-Foundation in New Delhi and Madras, India.

Dr Kloppenburg serves as Chairman of the Supervisory Board of KfW IPEX-Bank, Frankfurt am Main, Germany, deputy Chairman of the Supervisory Board of DEG, Cologne, Germany, and is member of the Supervisory Boards Deutsche Energie-Agentur, Berlin, Germany, and Hamburger Hafen und Logistik AG, Hamburg, Germany.

Dr Edeltraud Leibrock

Age: 50

Dr Edeltraud Leibrock joined KfW Group as a member of KfW's Executive Board in October 2011. She is in charge of Organization and Consulting and Transaction Management. Dr Leibrock's current tenure will end in September 2015.

Dr Leibrock studied mathematics, biology and physics at the University of Regensburg, Germany, and graduated with degrees in biology and physics in 1992. In 1996, she obtained a doctorate in natural sciences at the Technical University Hamburg, Germany. From 2009 to 2011, Dr Leibrock directed the Group IT division of BayernLB, Munich, Germany, as its Chief Information Officer and Executive Manager. From 2000 to 2009, she worked as a management consultant at the Boston Consulting Group, focusing on banks and financial services. From 1998 to 1999, Dr Leibrock was a visiting scientist at NOAA (National Oceanic and Atmospheric Admin / Department of Commerce) in Boulder, Colorado, USA.

Dr Leibrock is member of the Supervisory Board of Deutsche Flugsicherung GmbH, Langen, Germany. In addition, Dr Leibrock exercises a supervisory function at Frankfurter Stiftungskrankenhäuser e.V., Frankfurt, Germany and is member of the Executive Board of the KfW Foundation.

Bernd Loewen

Age: 49

Bernd Loewen joined KfW Group as a member of KfW's Executive Board in July 2009. He is in charge of Risk Management and Controlling, Accounting, and Portfolio Credit Service and Information Technology. Mr Loewen's second tenure will end in 2019.

Mr Loewen studied business administration at the University of Münster, Germany and graduated in 1991. From 2005 to 2009, he was a member of the Management Board of BRE Bank SA, Warsaw, Poland. Prior to that, he worked nine years at COMMERZBANK Aktiengesellschaft, first in the Frankfurt am Main, Germany, based Group Strategy and Equity Derivatives Trading departments and later as Managing Director of the New York, USA, based subsidiary Commerz Capital Markets Corporation.

Mr Loewen is a member of the supervisory board of KfW IPEX-Bank, Frankfurt am Main, Germany, a member of the supervisory board of The Currency Exchange Fund (TCX), Amsterdam, Netherlands, and an advisory member of the steering committee of the Sonderfonds Finanzmarktstabilisierung, known as SoFFin, Berlin, Germany. In addition, Bernd Loewen is a member of the executive board of Gesellschaft für Risikomanagement und Regulierung e.V., Frankfurt am Main, Germany and a member of the supervisory board of Senckenberg Gesellschaft für Naturforschung (SGN), Frankfurt a. M., Germany.

For information on the remuneration of the Executive Board, see note 81 to the financial statements included in Exhibit (e) to this annual report.

Board of Supervisory Directors

The Board of Supervisory Directors generally has 37 members and consists of the Federal Minister of Finance; the Federal Minister for Economic Affairs and Energy; the Federal Minister for Foreign Affairs; the Federal Minister of Food and Agriculture; the Federal Minister of Transport and Digital Infrastructure; the Federal Minister for Economic Cooperation and Development; the Federal Minister for the Environment, Nature Conservation, Building and Nuclear Safety; seven members appointed by the *Bundesrat*; seven members appointed by the *Bundestag*; five representatives of commercial banks; two representatives of industry; one representative each of the local municipalities, agricultural, skilled crafts, trade and housing sectors; and four representatives of the trade unions. The representatives of the commercial banks, industry, the local municipalities, agricultural, skilled crafts, trade and housing sectors, and the trade unions are appointed by the Federal Government after consultation with their constituencies.

The Federal Minister of Finance and the Federal Minister for Economic Affairs and Energy serve as Chairman and Deputy Chairman of the Board of Supervisory Directors on a year-by-year rotating basis, with the former serving as Chairman for the year 2015. The term of office of all Federal Ministers on KfW's Board of Supervisory Directors corresponds to their term of office as Federal Minister, while the other members of the Board of Supervisory Directors are personally appointed for a term of three years.

The Board of Supervisory Directors supervises the overall conduct of KfW's business and the administration of its assets. It may give the Executive Board general directives. In particular, the Board of Supervisory Directors (via its Risk and Credit Committee) generally must approve, inter alia, short-term financing, loan commitments to a single borrower exceeding EUR 50 million for non-investment grade, or unrated borrowers, certain unsecured loans, and loan commitments exceeding EUR 100 million to investment grade borrowers. The Board of Supervisory Directors may reserve the right to approve other transactions or types of transactions. However, it is not authorized to represent KfW or to commit funds on KfW's behalf.

As disclosed under "KfW—General—Supervision and Regulation," bank regulatory requirements for corporate governance generally have begun to apply to KfW by analogy in 2014.

In order to reflect these requirements, the Board of Supervisory Directors' committee structure was adjusted. As a result of these adjustments, KfW's Board of Supervisory Directors' committee structure now comprises a Presidial and Nomination Committee (*Präsidial- und Nominierungsausschuss*), a Remuneration Committee (*Vergütungskontrollausschuss*), a Risk and Credit Committee (*Risiko- und Kreditausschuss*) and an Audit Committee (*Prüfungsausschuss*). In order to establish the legal basis for these adjustments, KfW's Bylaws were amended accordingly and entered into force on August 1, 2014.

The Presidial and Nomination Committee is responsible for dealing with legal and administrative matters as well as fundamental business and corporate policy issues. It may take decisions on the Board of Supervisory Director's behalf in urgent matters (*Eilentscheidung*). Additionally, it regularly assesses the Executive Board and the Board of Supervisory Directors, provides recommendations for suitable candidates to the Executive Board and may assist the responsible federal agencies in appointing members to the Board of Supervisory Directors. The Remuneration Committee is responsible for dealing with the systems of remuneration for the Executive Board and KfW employees and their consequences for KfW's risk, capital and liquidity management and advises the Presidial and Nomination Committee with respect to the remuneration paid to the members of the Executive Board. The Risk and Credit Committee advises the Board of Supervisory Directors regarding, in particular, the current and future overall risk tolerance and strategy of KfW. It is responsible for approving loans and equity investments at the operational level that exceed certain thresholds as set forth in KfW's Bylaws, as well for authorizing the issuance of debt securities, borrowings in foreign currencies and swap transactions. The Audit Committee monitors in particular the accounting process and the effectiveness of the risk management system, especially the internal control system and the internal audit system. It monitors the performance of the audits of the annual financial statements and the timely correction of any errors identified by the auditor. Furthermore, the Audit Committee provides recommendations to the Board of Supervisory Directors regarding the approval of the annual unconsolidated financial statements and the adoption of the annual consolidated financial statements. The Presidial and Nomination Committee and the Remuneration Committee will, as a general rule, be chaired by the Chairperson of the Board of Supervisory Directors. The Risk and Credit Committee and the Audit Committee, as a general rule, will be chaired by a representative of the banking sector.

As of April 16, 2015, the members of the Board of Supervisory Directors were:

Name	Position
Jan Bettink	President of the Verband Deutscher Pfandbriefbanken (vdp); representative of the mortgage banks
Anton F. Börner	President of the Bundesverband Großhandel, Außenhandel, Dienstleistungen (BGA) e.V.; representative of the wholesale and foreign trade sector
Hans-Dieter Brenner	Chairman of the Executive Board of Helaba Landesbank Hessen-Thüringen, Frankfurt/Main; representative of a credit institution prominent in the field of industrial credit
Frank Bsirske	Chairman of ver.di – Vereinigte Dienstleistungsgewerkschaft; representative of the trade unions
Jens Bullerjahn	Minister of Finance of the State of Saxony-Anhalt; appointed by the *Bundesrat*
Alexander Dobrindt	Federal Minister of Transport and Digital Infrastructure
Georg Fahrenschon	President of the Deutscher Sparkassen- und Giroverband (DSGV); representative of the savings banks
Robert Feiger	Chairman of the IG Bauen-Agrar-Umwelt (construction, agriculture and environment); representative of the trade unions
Klaus-Peter Flosbach	Member of Parliament; appointed by the *Bundestag*
Sigmar Gabriel	Federal Minister for Economic Affairs and Energy; Chairman in 2014
Hubertus Heil	Member of Parliament; appointed by the *Bundestag*
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 German County Association; representative of the local municipalities
Gerhard Hofmann	Member of the Board of Managing Directors of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR); representative of the cooperative banks
Reiner Hoffmann	Chairman of the Deutscher Gewerkschaftsbund; representative of the trade unions
Bartholomäus Kalb	Member of Parliament; appointed by the *Bundestag*
Dr Markus Kerber	Executive Director of the Bundesverband der Deutschen Industrie e.V. (BDI); representative of the industry
Stefan Körzell	Member of the Federal Executive Committee of Deutscher Gewerkschaftsbund (DGB); representative of the trade unions
Matthias Kollatz-Ahnen	Senator for Finance in the city state of Berlin, appointed by the *Bundesrat*
Dr h.c. Jürgen Koppelin	Former Member of Parliament; appointed by the *Bundestag*
Dr Gesine Lötzsch	Member of Parliament; appointed by the *Bundestag*
Dr Gerd Müller	Federal Minister for Economic Cooperation and Development
Joachim Rukwied	President of the Deutscher Bauernverband e.V. (DBV); representative of the agricultural sector
Dr Wolfgang Schäuble	Federal Minister of Finance; Deputy Chairman in 2014
Dr Nils Schmid	Minister of Finance and Economic Affairs of the State of Baden-Württemberg; appointed by the *Bundesrat*

Name	Position
Christian Schmidt	Federal Minister of Food and Agriculture
Andreas Schmitz	Member of the Presidency of the Bundesverband Deutscher Banken e.V. (BdB); Chairman of the Management Board of HSBC Trinkaus & Burkhardt AG; representative of the commercial banks
Carsten Schneider	Member of Parliament; appointed by the *Bundestag*
Peter-Jürgen Schneider	Minister of Finance of the State of Lower Saxony; appointed by the *Bundesrat*
Holger Schwannecke	Secretary General of the Zentralverband des Deutschen Handwerks (ZDH); representative of the skilled crafts sector
Erwin Sellering	Minister President of the State of Mecklenburg-Vorpommern; appointed by the *Bundesrat*
Dr Markus Söder	State Minister of Finance of the Free State of Bavaria; appointed by the *Bundesrat*
Dr Frank-Walter Steinmeier	Federal Minister for Foreign Affairs
Dr Norbert Walter-Borjans	Minister of Finance of the State of Northrhine-Westphalia; appointed by the *Bundesrat*
Dr Martin Wansleben	Chief Executive of the Deutscher Industrie- und Handelskammertag e.V. (DIHK); representative of the industry
Dr Kai H. Warnecke	Chief Executive of Haus & Grund Germany; representative of the housing sector

For information concerning the remuneration of the Board of Supervisory Directors, see note 81 to the financial statements included in Exhibit (e) to this annual report.

Employees

In 2014, KfW Group employed an average of 5,518 persons (excluding members of the Executive Board and trainees, but including temporary personnel) (2013: 5,374 persons). Approximately 31% of KfW's staff is covered by collective bargaining agreements. KfW provides employee benefits such as pensions to its employees.

Of KfW Group's staff, approximately 24% is engaged in KfW's domestic business activities, 23% in promotion of developing and transition countries, 12% in export and project finance, and the balance in KfW's accounting, disbursements, collateral, funding and lending support departments and in general administrative and staff functions.

For more information concerning KfW Group's employees, see note 80 to the financial statements included in Exhibit (e) to this annual report.

THE FEDERAL REPUBLIC OF GERMANY

The following information regarding the Federal Republic is derived from the public official documents cited below. Certain of the information is preliminary.

GENERAL

Area, Location and Population

The Federal Republic is situated in central Europe and comprises an area of approximately 357,000 square kilometers (about 138,000 square miles). Its total population is estimated to have been approximately 81.1 million at the end of 2014 compared to 80.8 million people at the beginning of 2014. This was a year-on-year population increase for the fourth year in a row. The increase was again due to Germany's migration surplus, which more than offset the birth deficit (i.e., the negative difference between births and deaths). In 2012, approximately 16% of the total population was concentrated in metropolitan areas with more than 500,000 inhabitants; the largest of these areas were (in descending order) Berlin, Hamburg, Munich, Cologne and Frankfurt am Main.

Sources: Statistisches Bundesamt, Statistisches Jahrbuch 2014, Tables 1.1.2, 2.1.9 (https://www.destatis.de/DE/Publikationen/StatistischesJahrbuch/StatistischesJahrbuch2014.pdf?__blob=publicationFile); Statistisches Bundesamt, Germany's population grew again in 2014, press release of January 21, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/01/PE15_024_12411.html).

The following table shows selected key demographic figures for the Federal Republic for the years stated.

POPULATION

	2013 (1)	2012 (1)	2011 (1)	2010 (2)	2009 (2)
			(number of persons)		
Total population	80,767,463	80,523,746	80,327,900	81,751,602	81,802,257
Age distribution			(percent of total population)		
Under 20	18.1	18.2	18.4	18.4	18.8
20-40	24.1	23.9	23.9	24.2	24.3
40-60	30.7	31.0	31.1	31.1	31.0
60-80	21.7	21.5	21.3	21.0	20.8
80 and more	5.4	5.4	5.3	5.3	5.1
Growth rate			(percent change on the previous year)		
Total population	0.3	0.2	—	-0.1	-0.2
Under 20	-0.2	-0.6	—	-1.7	-1.8
20-40	0.8	0.4	—	-0.7	-1.5
40-60	-0.5	-0.2	—	0.2	0.6
60-80	1.2	1.2	—	0.9	0.8
80 and more	0.9	1.3	—	3.0	2.9

(1) Population based on data from the 2011 Census (preliminary results of April 10, 2014).

(2) Population based on former censuses.

Sources: Statistisches Bundesamt, Population, Current Population, Population by age groups, Germany, Value (https://www.destatis.de/EN/FactsFigures/SocietyState/Population/CurrentPopulation/Tables_/lrbev01.html?cms_gtp=150344_list%253D1&https=1); Statistisches Bundesamt, Population, Current Population, Population by age groups, Germany, Change on the previous year (https://www.destatis.de/EN/FactsFigures/SocietyState/Population/CurrentPopulation/Tables_/lrbev01.html?cms_gtp=150344_list%253D2&https=1).

With the publication of the first census results for reference date May 9, 2011 ("2011 Census"), on May 31, 2013, a new basis was provided for intercensal population updates. Compared with the number of inhabitants previously applicable on the basis of official intercensal population updates, there were approximately 1.5 million fewer inhabitants in Germany at the 2011 Census reference date than previously assumed. The population data previously provided for 2011 and 2012 were intercensal estimates based on the population census of 1987 (in western Germany) and on an extract from the Central Population Register of the former GDR of October 3, 1990 (in eastern Germany). These data have been revised, taking account of the 2011 Census results and the subsequent recalculation of population data for 2011.

Sources: Statistisches Bundesamt, State & Society, Current Population based on the 2011 Census (https://www.destatis.de/EN/FactsFigures/SocietyState/Population/CurrentPopulation/CurrentCensus.html); Statistisches Bundesamt, 2011 Census: 80.2 million inhabitants lived in Germany on 9 May 2011, press release of May 31, 2013 (https://www.destatis.de/EN/PressServices/Press/pr/2013/05/PE13_188_121.html).

Notwithstanding the small population increase in recent years due to net immigration, the German population is poised for a decline due to the gradual aging of its population. These developments are expected to continue and intensify over the next several decades and may result in a downward pressure on Germany's growth potential in the long term.

Source: Statistisches Bundesamt, New projection of Germany's population by 2060, press release of April 28, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/04/PE15_153_12421.html).

Government

The Federal Republic is a federated republic whose constitution is codified in the *Grundgesetz* of 1949. The capital of the Federal Republic is Berlin. The Federal Republic consists of 16 federal states (*Länder*). The *Länder* have legislative sovereignty over matters not expressly reserved to the legislative, executive and judicial bodies of the Federal Republic.

The *Grundgesetz* provides for a Federal President (*Bundespräsident*), two Houses of Parliament (the *Bundestag* and the *Bundesrat*, which consists of representatives of the 16 *Länder* governments), a Chancellor (*Bundeskanzler*) and a Federal Constitutional Court (*Bundesverfassungsgericht*). The Chancellor heads the Federal Government (*Bundesregierung*), consisting of the Chancellor and the Federal Ministers. The *Bundespräsident* acts as head of state.

General elections for the *Bundestag* are generally held every four years on the basis of an electoral system of proportional representation. The last general election was held on September 22, 2013. It is expected that the next general election will be held in September 2017.

A political party is not entitled to party representation in the *Bundestag* unless it receives at least 5% of the votes cast or three direct mandates in a general election. The Chancellor is elected by and is responsible to the *Bundestag*.

Political Parties

The political parties currently represented in the *Bundestag* are the Christian Democratic Union (CDU) and its Bavarian sister party, the Christian Social Union (CSU), the Social Democratic Party (SPD), the Left-Wing Party (Die Linke, founded in 2007 by the merger of the Left-Wing Party of Democratic Socialism (Linkspartei.PDS) and the party Labor and Social Justice - The Election Alternative (WASG)) and the Greens (Bündnis 90/Die Grünen).

Since 1949, the Federal Republic has been governed by eight Chancellors over 18 electoral periods. The most recent general election, held in September 2013, resulted in a coalition between the Christian Democrats (CDU/CSU) and the Social Democratic Party (SPD), led by Chancellor Dr Angela Merkel (CDU). Dr Merkel has been serving as Chancellor since 2005.

Sources: The Federal Returning Officer, Official final result of the 2013 Bundestag Election, press release of October 9, 2013 (http://www.bundeswahlleiter.de/en/bundestagswahlen/BTW_BUND_13/presse/034w13_Endgueltiges_amtliches_Ergebnis.html); Shaping Germany's Future. Coalition Agreement between CDU, CSU and SPD (https://www.cdu.de/sites/default/files/media/dokumente/koalitionsvertrag.pdf).

The following table shows the results of the five most recent general elections for the *Bundestag*.

ELECTION RESULTS TO THE GERMAN *BUNDESTAG*

	2013 Elections		2009 Elections		2005 Elections		2002 Elections		1998 Elections	
	% of Votes	Seats	% of Votes	Seats	% of Votes	Seats	% of Votes	Seats	% of Votes	Seats
CDU/CSU	41.5	311	33.8	239	35.2	226	38.5	248	35.1	245
SPD	25.7	193	23.0	146	34.2	222	38.5	251	40.9	298
Die Linke. (1)	8.6	64	11.9	76	8.7	54	4.0	2	5.1	36
Bündnis 90/Die Grünen	8.4	63	10.7	68	8.1	51	8.6	55	6.7	47
FDP	4.8	—	14.6	93	9.8	61	7.4	47	6.2	43
Others	10.9	—	6.0	—	3.9	—	3.0	—	5.9	—
Total		**631**		**622**		**614**		**603**		**669**

(1) Results for the Party of Democratic Socialism (PDS) for all elections prior to 2005.

Sources: Statistisches Bundesamt, Statistisches Jahrbuch 2013, Tables 10.1.1 and 10.1.2; Statistisches Bundesamt, Statistisches Jahrbuch 2011, Tables 4.3.1, 4.3.2 and 4.6; The Federal Returning Officer, Official final result of the 2013 Bundestag Election, press release of October 9, 2013 (http://www.bundeswahlleiter.de/en/bundestagswahlen/BTW_BUND_13/presse/034w13_Endgueltiges_amtliches_Ergebnis.html).

International Organizations

In addition to the European Union ("EU"), the Federal Republic is a member of various major multilateral institutions, including the United Nations, the International Monetary Fund ("IMF"), the International Bank for Reconstruction and Development and the International Development Association, the Council of Europe, the Organization for Economic Cooperation and Development and the North Atlantic Treaty Organization. In addition, the Federal Republic is a signatory to the General Agreement on Tariffs and Trade, a member of the World Trade Organization ("WTO") and a prospective founding member of the Asian Infrastructure Investment Bank. It is also a shareholder of, among others, the European Investment Bank, the European Bank for Reconstruction and Development, and the European Atomic Energy Community.

The European Union and European Integration

The Federal Republic was a founding member of the European Coal and Steel Community in 1951, which later developed into the European Union. Today, the Federal Republic is one of 28 member states of the EU, which apart from the Federal Republic include Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom (the "Member States"). According to provisional data, the aggregate population of the Member States was approximately 507 million as of January 1, 2014. The EU is still in the process of enlargement. Formal membership negotiations have been opened with Turkey, Montenegro and Serbia. The former Yugoslav Republic of Macedonia and Albania have been granted candidate status. Bosnia and Herzegovina and Kosovo are potential candidates. Iceland's minister for foreign affairs announced in mid-March 2015 that Iceland will not continue accession talks and that Iceland should no longer be considered a candidate for EU accession.

Sources: Europa.eu, The history of the European Union (http://europa.eu/about-eu/eu-history/index_en.htm); Europa.eu, 2000-2009: Further expansion (http://europa.eu/about-eu/eu-history/2000-2009/index_en.htm); Europa.eu, 2010-today: A decade of opportunities and challenges, 2013 (http://europa.eu/about-eu/eu-history/2010-today/2013/index_en.htm); Statistical Office of the European Communities, Total population (http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tps00001&tableSelection=1&footnotes=yes&labeling=labels&plugin=1); Europa.eu, Enlargement, Countries preparing to join, Check current status (http://ec.europa.eu/enlargement/countries/check-current-status/index_en.htm); Europa.eu, Enlargement, Countries preparing to join, Serbia (http://ec.europa.eu/enlargement/countries/detailed-country-information/serbia/index_en.htm); Ministry for Foreign Affairs, Letter to the Latvian Presidency of the Council of the European Union and to the Commissioner for European Neighbourhood Policy & Enlargement Negotiation, dated March 12, 2015(http://www.mfa.is/media/gunnar-bragi/Bref-ESB-ENS-pdf.pdf).

Economic Integration

From its inception, the EU has had the fundamental objective, in line with its predecessors, of economic integration of its Member States. Culminating a long process, a single market that provides for the free movement of goods and services, persons and capital among the Member States was established as of January 1, 1993. The integration of the Member States' economies and the completion of a single market are also promoted by a European competition policy, which aims at creating a level playing field for Member States' companies, thereby promoting economic efficiency, and by a European consumer policy. In addition, various liberalization and harmonization measures are being implemented, for example in the telecommunication and energy sectors. In the financial sector, the single market has been fostered by providing for the free movement of capital and the freedom to perform banking services throughout the EU under the "single passport," which enables financial institutions to provide financial services throughout the EU based on a single license obtained in one Member State. The EU promotes economic integration with regional aid, which is designed to focus development efforts on certain disadvantaged regions and sections of population of the EU. Another important policy area for the EU has been agriculture and fisheries.

The regulation laying down the multiannual financial framework ("MFF") of the EU was formally adopted in December 2013. The MFF determines maximum amounts for commitment appropriations for the period from 2014 until 2020, which cover commitments made to spend funds over one or more years in certain expenditure categories. Additionally, the MFF defines annual maximum amounts for payment appropriations, which cover payments made to honor the legal commitments entered into during the current financial year and/or earlier financial years. The 2015 EU budget, which was adopted by the European Parliament in December 2014, amounts to EUR 145.3 billion in commitment appropriations and EUR 141.2 billion in payment appropriations. The entire EU budget represents slightly more than 1% of the EU gross national income.

Sources: European Commission, Europe in 12 lessons by Pascal Fontaine (http://bookshop.europa.eu/en/europe-in-12-lessons-pbNA3110652/downloads/NA-31-10-652-EN-C/NA3110652ENC_002.pdf?FileName=NA3110652ENC_002.pdf&SKU=NA3110652ENC_PDF&CatalogueNumber=NA-31-10-652-EN-C); European Commission, Banking (http://ec.europa.eu/internal_market/bank/index_en.htm); European Council, Council adopts the multiannual financial framework 2014-2020, Press Release, December 2, 2013 (http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/139831.pdf); European Commission, Budget, Annual Budget, 2015 (http://ec.europa.eu/budget/annual/index_en.cfm?year=2015); European Parliament, Parliament approves EU budgets for 2014 and 2015, press release of December 17, 2014 (http://www.europarl.europa.eu/news/en/news-room/content/20141212IPR01102/html/Parliament-approves-EU-budgets-for-2014-and-2015).

Monetary Integration

The Federal Republic is a signatory to and has ratified the Treaty on European Union of February 1992 (also known as the "Maastricht Treaty"). The Maastricht Treaty was the basis for the establishment of the European Economic and Monetary Union ("EMU"). The EMU led, in turn, to the adoption of irrevocable conversion rates between the euro and the national currencies of the initial participating Member States on December 31, 1998 and the introduction of the euro as the single European currency in the "euro area" on January 1, 1999. On January 1, 2002, banknotes and coins denominated in euro were introduced as legal tender to replace the national currencies in the twelve Member States forming the euro area at that time (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain). Slovenia, Malta, Cyprus, Slovakia, Estonia and Latvia subsequently joined the euro area. The most recent addition was Lithuania, which joined the euro area on January 1, 2015.

The European Central Bank ("ECB") was established on June 1, 1998, as part of the European System of Central Banks ("ESCB"). According to the Maastricht Treaty, the primary objective of the ESCB is to maintain price stability. Without prejudice to the objective of price stability, the ESCB supports the general economic policies of the EU. See "Monetary and Financial System" for more information on the ECB and ESCB as well as on the European financial system. The Eurosystem, consisting of the ECB and the national central banks of those Member States whose currency is the euro (the "Euro Area Member States"), assumed sole responsibility for the monetary policy in the euro area on January 1, 1999.

Sources: European Union, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union (http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12012M/TXT&from=EN); European Central Bank, Economic and Monetary Union (EMU) (http://www.ecb.int/ecb/history/emu/html/index.en.html); European Central Bank, Lithuania joins the euro area, press release of January 1, 2015 (http://www.ecb.europa.eu/press/pr/date/2015/html/pr150101.en.html); European Central Bank, Monthly Bulletin, 10th Anniversary of the ECB (https://www.ecb.europa.eu/pub/pdf/other/10thanniversaryoftheecbmb200806en.pdf).

EU Economic Governance

In light of the challenges posed by the ongoing economic and financial crisis in certain Euro Area Member States, the Member States have taken a series of measures to strengthen economic and budgetary coordination for the EU as a whole and for the euro area in particular. The process is still ongoing. The enhanced and strengthened EU economic governance framework consists of the following main components.

Stability and Growth Pact. To ensure continuous budgetary discipline in the EMU, the Member States established the Stability and Growth Pact (the "SGP") in 1996. The SGP was enhanced by a package of six legislative acts (commonly known as the "six-pack"), which entered into force in December 2011. Parts of the six-pack reinforce both the preventive and the corrective arm of the SGP. The preventive arm of the SGP guides Member States towards a country-specific, medium-term budgetary objective, which seeks to ensure the sustainability of public finances. To assess progress towards this objective, in addition to the structural budget balance (defined as the cyclically adjusted balance net of one-off and temporary measures), the rules provide for an "expenditure benchmark." This expenditure benchmark places a cap on the annual growth of public expenditures according to a medium-term rate of gross domestic product ("GDP") growth. For Member States that have not yet reached their medium-term budgetary objective, the rate of growth of expenditures should be below this reference rate in order to ensure adequate progress. Under the amended SGP, a significant deviation from the medium-term budgetary objective, or from an appropriate adjustment path towards it, can lead to a financial sanction for Euro Area Member States (an interest-bearing deposit of 0.2% of GDP). Such sanctions are proposed by the European Commission and adopted by reverse qualified majority voting in the Economic and Finance Affairs Council (the "Ecofin Council"), a mechanism which implies that a recommendation or a proposal of the European Commission is considered adopted in the Ecofin Council unless a qualified majority of Member States votes against it, thus ensuring more automatic enforcement.

The corrective arm of the SGP consists of the excessive deficit procedure ("EDP"). The EDP is a mechanism established in the EU treaties requiring Member States to keep their general government deficits equal or below 3% of GDP and general government gross debt equal or below (or on a sufficiently downward trend towards) 60% of GDP. Previously, the implementation of the EDP by EU regulations only provided for an EDP to be triggered on the basis of a deficit in excess of 3% of GDP. The six-pack gives effect to the debt criterion, so that an EDP may also be launched on the basis of a debt ratio in excess of 60% of GDP. A Member State may become subject to an EDP even if its deficit is equal or below 3% of GDP if the gap between its debt level and the 60% reference is not reduced on average by 1/20th annually. The EDP provides that the Ecofin Council decides with a qualified majority whether an excessive deficit has been incurred after taking into account all relevant factors that have been agreed upon by Member States as well as the impact of the economic cycle. If it concludes that there is an excessive deficit, the Ecofin Council, based on recommendations by the European Commission, suggests corrective measures aimed at deficit reduction and then reviews the corrective measures taken by the Member State. Under the amended SGP, financial sanctions for Euro Area Member States are imposed at an earlier stage of the EDP. A non-interest bearing deposit of 0.2% of GDP may be requested from a Euro Area Member State that is placed in an EDP on the basis of its deficit or its debt. Failure of a Euro Area Member State to comply with recommendations for corrective action will result in a fine of 0.2% of GDP. As in the preventive arm of the SGP, these new sanctions will be proposed by the European Commission and adopted by reverse qualified majority voting in the Ecofin Council. Finally, if the Euro Area Member State further fails to take effective action, the sanctions already provided for in the EU treaties can be imposed (as a rule, a fine of up to 0.5% of GDP).

In May 2013, two further regulations, known as the "two-pack", entered into force. These regulations apply to Euro Area Member States only. The procedures are designed to complement the SGP and to further improve budgetary coordination in the euro area. The two-pack sets a common budgetary timeline and rules for Euro Area Member States. Euro Area Member States must publish their draft budgets by October 15 for the following year. The European Commission will examine and give an opinion on each draft budget, by November 30 at the latest. If the European Commission detects severe non-compliance with the SGP, it will ask the Euro Area Member State to submit a revised plan. The two-pack was designed to strengthen monitoring and surveillance for Euro Area Member States in EDP and for Euro Area Member States threatened with or experiencing serious difficulties regarding their financial stability.

Sources: European Council, Dublin European Council 13 and 14 December 1996 Presidency Conclusions (http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/032a0003.htm); Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union (http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2010:083:SOM:EN:HTML); European Commission, Economic and Financial Affairs, Economic Governance (http://ec.europa.eu/economy_finance/economic_governance/index_en.htm); European Commission, Economic and Financial Affairs, Economic Governance, Stability and Growth Pact (http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm); Six-pack? Two-pack? Fiscal compact? A short guide to the new EU fiscal governance (http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm); EU Economic governance "Six-Pack" enters into force, press release of December 12, 2011 (http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/898);'Two-Pack' enters into force, completing budgetary surveillance cycle and further improving economic governance for the euro area, press release of May 27, 2013 (http://europa.eu/rapid/press-release_MEMO-13-457_en.htm).

Macroeconomic Imbalance Procedure. The economic and financial crisis in the euro area demonstrated a need for strengthened surveillance of the economic policies of the Member States beyond the fiscal field. Accordingly, in 2011, the macroeconomic imbalance procedure ("MIP") was established as part of the six-pack legislation described above. The aim of the MIP is to identify potential risks early on, prevent the emergence of harmful imbalances and correct any existing excessive imbalances. The preventive arm of the process relies on an early warning system that uses a scoreboard of indicators and in-depth country reviews. This preventive arm allows the European Commission and the Council to adopt recommendations to the affected Member State at an early stage. In cases where excessive macroeconomic imbalances have already arisen, there is a corrective arm through which an excessive imbalance procedure may be initiated against a Member State by a Council decision with qualified majority. In this case, the Member State concerned will have to submit a corrective action plan which will be monitored by the European Commission on the basis of regular progress reports submitted by such Member State. In addition, a new enforcement regime has been introduced for Euro Area Member States, which, as a measure of last resort, imposes financial sanctions if the Euro Area Member State repeatedly does not comply with its obligations. The Council is to rely on reverse qualified majority voting to take the decisions leading up to sanctions. The financial sanctions may eventually result in a fine of up to 0.1% of GDP. In the most recent surveillance cycle, 16 Member States including Germany were subject to an in-depth review in the context of the MIP and found to be experiencing macroeconomic imbalances of various natures and magnitudes. See "The Economy—International Economic Relations—Germany's Current Account Surplus and the Macroeconomic Imbalance Procedure."

Sources: European Commission, Economic and Financial Affairs, Economic Governance, Macroeconomic Imbalance Procedure (http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm); EU Economic governance "Six-Pack" enters into force, press release of December 12, 2011 (http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/898); European Commission, European Semester 2015: country-specific updates, fact sheet of February 26, 2015 (http://europa.eu/rapid/press-release_MEMO-15-4511_en.htm).

Treaty on Stability, Coordination and Governance in the EMU. In March 2012, the Heads of State or Government of all Member States, with the exception of the United Kingdom and the Czech Republic, signed the Treaty on Stability, Coordination and Governance in the EMU. On January 1, 2013, this treaty was ratified by twelve Euro Area Member States and entered into force. Its provisions are binding for Euro Area Member States, while the other Member States will only be bound if they adopt the euro, unless they declare their intention to be bound by certain provisions of the treaty at an earlier date. The core set of rules aims at further strengthening fiscal discipline within the euro area and is also known as the "fiscal compact." The Treaty on Stability, Coordination and Governance in the EMU is not EU law but an entirely new intergovernmental agreement. Therefore, the fiscal compact does not replace the SGP, but is applicable in parallel to the SGP. The fiscal compact requires contracting parties to ensure convergence towards the country-specific medium-term budgetary objectives, as defined in the SGP, with an upper limit of a structural deficit of 0.5% of GDP. In the event of a deviation from this rule, an automatic correction mechanism will be triggered, with escape clauses for exceptional circumstances. These budget rules were required to be transposed into national law through provisions of "binding force and permanent character, preferably constitutional" one year after the entry into force of the treaty, i.e., by January 1, 2014 at the latest. If a contracting party does not comply with this obligation, the matter is to be brought before the EU Court of Justice. The court's judgment would be binding, and, in the case of non-compliance with the judgment, could be followed up with a penalty of up to 0.1% of GDP, payable to the European Stability Mechanism ("ESM") in the case of Euro Area Member States. A full assessment of the transposition of the fiscal compact into national law is scheduled to be concluded by mid-2015. Moreover, the contracting parties agreed that from March 1, 2013, financial assistance will only be granted under the ESM if the relevant Member State has ratified the Treaty on Stability, Coordination and Governance in the EMU and transposed the provisions relating to the balanced budget rule into national law within the time frame set in the fiscal compact. For more information, see "—Response to the European Sovereign Debt Crisis—Treaty on the European Stability Mechanism." Finally, the fiscal compact includes a commitment by Euro Area Member States to adopt the European Commission's recommendations in the framework of an EDP unless opposed by a qualified majority. In fact, this commitment extends the use of reverse qualified majority voting to all stages of an EDP, even if this is not provided for in EU treaties and regulations.

Sources: Six-pack? Two-pack? Fiscal compact? A short guide to the new EU fiscal governance (http://ec.europa.eu/economy_finance/articles/governance/2012-03-14_six_pack_en.htm); Fiscal compact signed: Strengthened fiscal discipline and convergence in the euro area, press release of March 2, 2012 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/128454.pdf); European Council, Fiscal compact enters into force; press release of December 21, 2012 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/134543.pdf); Eurogroup, Eurogroup Statement on the Draft Budgetary Plans 2015, press release of December 8, 2014 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/146100.pdf).

Response to the European Sovereign Debt Crisis

Temporary Financial Backstop Mechanism. In May 2010, the Council and the Member States decided to set up a temporary stability mechanism to preserve the stability of the euro area by providing temporary financial assistance to Euro Area Member States if needed. One part of the mechanism consisted of a new community instrument (the European Financial Stabilisation Mechanism, or "EFSM") of up to EUR 60 billion. In addition, the Euro Area Member States established the European Financial Stability Facility ("EFSF") as a société anonyme under Luxembourg law on June 7, 2010. The EFSF has provided financial assistance to Euro Area Member States in financial difficulties subject to conditions which were to be negotiated with the European Commission together with the ECB and the IMF and to be approved by the euro area finance ministers. The EFSF has a lending capacity of EUR 440 billion backed by guarantees extended by the Euro Area Member States. These guarantees total EUR 780 billion, but Euro Area Member States receiving or having received financial support may opt out of the guarantee structure, which applies to Ireland, Portugal, Greece and Cyprus. As a result, the EFSF has effective guarantees totaling EUR 724.5 billion. The EFSF was created as a temporary institution and therefore since July 1, 2013 may no longer engage in new financing programs, although the EFSF will continue to service existing commitments. The EFSF will be dissolved and liquidated when all financial assistance provided to Euro Area Member States and all funding instruments issued by the EFSF have been repaid in full.

The Federal Republic has committed guarantees of approximately EUR 211 billion to the EFSF in accordance with its share in the paid-up capital of the ECB. Accordingly, the Federal Republic contributes approximately 29% of the total effective guarantees. As of the end of March 2015, the EFSF had outstanding bonds and bills of approximately EUR 196 billion.

Sources: EFSF FAQ Update as of January 16, 2015 (http://www.efsf.europa.eu/attachments/EFSF%20FAQ%202015-01-16.pdf); European Commission, Economic and Financial Affairs, Intergovernmental support mechanisms, European Financial Stability Support (EFSF) (http://ec.europa.eu/economy_finance/european_stabilisation_actions/index_en.htm); European Commission, Economic and Financial Affairs, European Financial Stabilisation Mechanism (EFSM) (http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm); EFSF, Investor Relations, Transactions (http://www.efsf.europa.eu/investor_relations/issues/index.htm).

Treaty on the European Stability Mechanism. In February 2012, the Euro Area Member States signed the revised treaty on the European Stability Mechanism ("ESM"). The ESM treaty entered into force on September 27, 2012, and the ESM was inaugurated on October 8, 2012 following ratification by all then 17 Euro Area Member States.

The ESM has been designed as a permanent stability mechanism that assumes the tasks fulfilled by the EFSF and the EFSM and is established as an intergovernmental organization under public international law. Following the accession of Latvia in 2014 and Lithuania in 2015, the ESM has an effective lending capacity of EUR 500 billion backed by total subscribed capital of approximately EUR 704.8 billion. Of this amount, approximately EUR 80.5 billion is in the form of paid-in capital provided by the Euro Area Member States and approximately EUR 624.3 billion in the form of callable capital committed by Euro Area Member States. The 17 founding members of the ESM completed their payment of paid-in capital on April 30, 2014. Latvia and Lithuania are in the process of providing their shares of paid-in capital in five annual installments. The contribution of each Euro Area Member State is based on the paid-in capital for the ECB. On this basis, the Federal Republic's contribution amounts to approximately 27% of the aggregate contributions to the ESM. The Federal Republic contributes approximately EUR 22 billion of paid-in capital to the ESM.

The ESM's purpose is to provide financial assistance to Euro Area Member States experiencing or threatened by severe financing problems, if such assistance is deemed essential to safeguard financial stability in the euro area as a whole. The range of instruments available to ESM includes loans to Euro Area Member States in financial difficulties, interventions in the primary and secondary debt markets, credit lines to non-program countries within the framework of a precautionary program and the recapitalization of financial institutions through loans to governments. In addition, the ESM may recapitalize financial institutions directly since December 2014. The so-called "direct recapitalization instrument" is one element of Europe's banking union. For more information on the European banking union, see "Monetary and Financial System — The European Financial System — European System of Financial Supervision and European Banking Union." Financial support is subject to strict economic policy conditionality appropriate to the instrument chosen.

Furthermore, parallel to the Treaty on Stability, Coordination and Governance in the EMU, the contracting parties stated in the ESM treaty that as of March 1, 2013, only Euro Area Member States that have ratified the fiscal compact and have implemented the balanced budget rule as specified in the fiscal compact within the agreed timeline (one year after entry into force) are eligible for financial support from the ESM. Financial assistance from the ESM is activated upon a Euro Area Member State's request. Once such a request is made, active participation of the IMF will be sought. The ESM's rules provide for case-by-case participation of private sector creditors, consistent with IMF policies. In order to facilitate this process, the inclusion of standardized and identical collective action clauses in the terms and conditions of all new euro area government bonds with a maturity of more than one year, has been mandatory since January 1, 2013. ESM loans enjoy preferred creditor status in a similar fashion to those extended by the IMF, while accepting preferred creditor status of the IMF over the ESM. In the event of ESM financial assistance in the form of ESM loans following a European financial assistance program existing at the time of the signature of this Treaty, the ESM will enjoy the same seniority as all other loans and obligations of the beneficiary ESM Member, with the exception of the IMF loans.

In principle, decisions under the ESM are taken by mutual agreement. However, the ESM treaty also provides for an emergency voting rule. In the event that the European Commission and the ECB conclude that an urgent decision related to financial assistance is needed because the financial and economic sustainability of the euro area is threatened, the mutual agreement rule is replaced by a qualified majority of 85%. Given its voting rights of approximately 27%, the Federal Republic may veto any decision even under the emergency voting rule.

As of July 1, 2013, the ESM became the sole and permanent mechanism for responding to new requests for financial assistance by Euro Area Member States. As mentioned above, the EFSF is envisaged to remain active only in the financing programs that started before the ESM Treaty was signed (Greece; the programs for Portugal and Ireland already ended).

As of the end of March 2015, the ESM had loans outstanding to Spain and Cyprus of approximately EUR 44 billion.

On March 18, 2014, the German Federal Constitutional Court (*Bundesverfassungsgericht*) handed down its decision in the main proceedings challenging the ESM treaty and the fiscal compact. The decision affirmed the preliminary ruling the court had handed down in September 2012, which had approved the ratification by the Federal Republic of the ESM treaty and the fiscal compact.

Sources: European Commission, Economic and Financial Affairs, Intergovernmental support mechanisms, European Stability Mechanism (ESM) (http://ec.europa.eu/economy_finance/assistance_eu_ms/intergovernmental_support/index_en.htm); ESM FAQ as of February 3, 2015 (http://www.esm.europa.eu/pdf/2015-02-03%20FAQ%20ESM.pdf); Frequently Asked Questions on ESM paid-in capital, as of May 1, 2014 (http://www.esm.europa.eu/pdf/FAQ%20on%20paid-in%20capital.pdf); Frequently Asked Questions on the ESM direct recapitalisation instrument as of December 8, 2014 (http://www.esm.europa.eu/pdf/2014-12-08%20FAQ%20DRI.pdf); ESM, ESM Treaty signed 02/02/2012 - Consolidated version following Lithuania's accession to the ESM (http://www.esm.europa.eu/pdf/ESM%20Treaty%20consolidated%2003-02-2015.pdf); European Financial Stability Facility, ESM becomes sole mechanism for new financial assistance programmes to euro area Member States, July 1, 2013 (http://www.efsf.europa.eu/mediacentre/news/2013/esm-becomes-sole-mechanism-for-new-financial-assistance-programmes-to-euro-area-member-states.htm); ESM, ESM approves a second voluntary early repayment by Spain, press release of March 10, 2015 (http://www.esm.europa.eu/press/releases/esm-approves-a-second-voluntary-early-repayment-by-spain.htm); Bundesregierung, European Stability Mechanism, press release of March 18, 2014 (http://www.bundesregierung.de/Content/EN/Artikel/2014/03/2014-03-18-bverfg-esm.html).

European Fund for Strategic Investments. On January 13, 2015, the European Commission adopted a legislative proposal establishing the European Fund for Strategic Investments ("EFSI") with an initial contribution on the EU level of EUR 21 billion. The EFSI is set up as a dedicated trust-fund within the European Investment Bank with a view to presenting a different risk profile, providing additional sources of financing and targeting projects delivering greater societal and economic value beyond the projects currently financed through the European Investment Bank or existing EU programs. The EFSI is part of the European Commission's investment plan for Europe, a proposed package of measures seeking to mobilize EUR 315 billion in public and private investments over the next three years (2015–2017). The EFSI is open to contributions from national promotional banks, regional authorities and private investors, including entities outside the EU. The Federal Republic has announced its intention to contribute approximately EUR 8 billion to the mobilization of the investment plan through KfW. For more information on KfW's contribution to the plan, see "Group management report—Forecast and opportunity report—Risk outlook—Risk situation and risk-bearing capacity" included in Exhibit (e) to this annual report.

Sources: European Commission, Delivery of € 315 billion Investment Plan on track: Commission presents law for the European Fund for Strategic Investments, press release of January 13, 2015 (http://europa.eu/rapid/press-release_IP-15-3222_en.htm); European Commission, Factsheet 2: Where Does the Money Come From? (http://ec.europa.eu/priorities/jobs-growth-investment/plan/docs/factsheet2-where-from_en.pdf).

Financial Assistance to Euro Area Member States

Greece. After Greece had experienced serious difficulties in accessing the financial markets to obtain new borrowings to cover its substantial financing needs in the first months of 2010, the Euro Area Member States concluded that the stability of the euro area as a whole was threatened and agreed to help Greece meet its financing needs. In May 2010, the Euro Area Member States agreed to provide Greece with stability support (the "Greek Loan Facility") in the form of pooled bilateral loans of up to EUR 80 billion, parallel to a loan facility provided by the IMF of up to EUR 30 billion. The amounts under the Greek Loan Facility were planned to be disbursed over the period May 2010 through June 2013. The Federal Republic committed to contribute up to approximately EUR 22.3 billion, which was to be extended by KfW on behalf of the Federal Republic. As of December 2011, a total amount of EUR 73 billion had been disbursed under the Greek Loan Facility, of which approximately EUR 53 billion was provided by Euro Area Member States and EUR 20 billion by the IMF.

In July 2011, the Heads of State or Government of the euro area and EU institutions agreed to support a new program for Greece and, together with the IMF and the voluntary contribution of the private sector, fully cover the financing gap. A sufficient majority of private sector creditors accepted the voluntary exchange of Greek debt in early March 2012. Of a total of EUR 205.6 billion in bonds eligible for the exchange offer, approximately 96% were exchanged. Accordingly, in mid-March 2012, the Euro Area Member States formally approved a second adjustment program for Greece. Under the second program, the EFSF and the IMF committed the undisbursed amounts of the first program plus an additional EUR 130 billion for the years 2012 to 2014. The EFSF committed an overall amount of EUR 144.5 billion (including the amounts already committed or disbursed for the involvement of private sector creditors and bank recapitalization) for the years 2012 to 2014, while the IMF has committed to contribute EUR 28 billion (SDR 23.8 billion) over the course of a four-year period.

In fall 2012, the outlook for the sustainability of Greek government debt had worsened compared to March 2012 when the second program was concluded, mainly on account of a deteriorated macro-economic situation and delays in program implementation caused by two election rounds. Against this background, in November 2012, the euro area finance ministers and the IMF agreed to extend the fiscal adjustment path by two years and on a package of measures aimed at reducing Greece's debt to 124% of GDP by 2020. In parallel, Greece carried out a successful public debt buy-back tender process, which is expected to reduce debt by 9 $^{1}/_{2}$% of GDP by 2020.

After the election of a new Greek president failed in December 2014, snap parliamentary elections were called for in January 2015. This raised significant political uncertainty, also in view of the scheduled expiry of the second program at the end of February 2015. After intense negotiations between the newly-elected SYRIZA government and Euro Area Member States, the Greek government requested an extension of the program on February 18, 2015. The Eurogroup, an informal body, where ministers of the Euro Area Member States discuss matters relating to their shared responsibilities with respect to the euro, agreed to extend the program by four months until the end of June 2015. The extension is supposed to permit Greek authorities to achieve a successful conclusion of the review under the second program and the design of possible follow-on arrangements. Following this decision, EUR 1.8 billion are still available for disbursement to Greece under the second program. In addition, the transfer of EUR 1.9 billion of the 2014 profits from the ECB's Securities Markets Programme remains available for Greece. Any disbursement is conditional upon the successful conclusion of the final review under the second program and the approval of the Eurogroup.

As of the end of March 2015, total EFSF funding to Greece within the framework of the second program amounted to approximately EUR 130.9 billion.

Sources: European Commission, Economic and Financial Affairs, Financial Assistance in EU Member States, Greece (http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm); Council of the European Union, Statement by the heads of state or government of the euro area and EU institutions, dated July 21, 2011 (https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/123978.pdf); EFSF, Lending Operations as of February 27, 2015 (http://www.efsf.europa.eu/about/operations/index.htm); EFSF FAQ Update as of December 9, 2013 (http://www.efsf.europa.eu/attachments/EFSF%20FAQ%202013-12-09.pdf); EFSF, EFSF Board of Directors extends MFFA for Greece until 30 June 2015, press release of February 27, 2015 (http://www.efsf.europa.eu/mediacentre/news/2015/efsf-board-of-directors-extends-mffa-for-greece-until-30-june-2015.htm); Council of the EU, Eurogroup (http://www.consilium.europa.eu/en/council-eu/eurogroup/).

Ireland. The first Euro Area Member State to receive support by the EFSM and EFSF was Ireland. The financial assistance, which was agreed upon in December 2010 and was provided subject to compliance with the economic adjustment program, consisted of financial support of EUR 85 billion, including EUR 22.5 billion financed through the EFSM, EUR 17.7 billion through the EFSF, EUR 22.5 billion through the IMF and EUR 4.8 billion through bilateral loans from the United Kingdom, Denmark and Sweden. The remaining EUR 17.5 billion was financed by the Irish Treasury cash buffer and investments of the Irish National Pension Reserve Fund. In November 2013, the Irish government announced its decision not to request successor financial assistance, and the financial assistance program for Ireland expired as planned in December 2013. Ireland remains subject to post-program surveillance until at least 75% of the financial assistance received has been repaid which is not expected until 2031. As of the end of March 2015, Ireland had already repaid SDR 15.7 billion (approximately EUR 19.2 billion) of loans to IMF.

Sources: Council agrees on joint EU-IMF financial assistance package for Ireland, December 7, 2010 (http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-12-01-financial-assistance-ireland_en.htm); European Commission, Economic and Financial Affairs, Financial Assistance in EU Member States, Ireland (http://ec.europa.eu/economy_finance/assistance_eu_ms/ireland/index_en.htm); European Financial Stability Facility, EFSF financial assistance for Ireland ends with successful Irish exit, press release of December 8, 2013 (http://www.efsf.europa.eu/mediacentre/news/2013/efsf-financial-assistance-for-ireland-ends-with-successful-irish-exit.htm); Eurogroup, Statement by the Eurogroup on Ireland, press release of November 14, 2013 (http://www.consilium.europa.eu/en/press/press-releases/?stDt=20131114).

Portugal. In early April 2011, the Portuguese Republic officially applied for support under the financial support mechanisms. Euro area, EU and IMF financial support was being provided for the 2011 to mid-2014 period on the basis of an agreement on an economic adjustment program which was negotiated between the Portuguese authorities and officials from the European Commission, the IMF and the ECB in May 2011. The total financial package amounted to EUR 78 billion, with EFSM, EFSF and IMF each contributing EUR 26 billion. After the conclusion of the twelfth and final review mission in May 2014, the Portuguese government decided to exit its macroeconomic adjustment program without successor arrangement. Portugal remains subject to post-program surveillance until at least 75% of the financial assistance received has been repaid which is not expected until 2026. As of the end of March 2015, Portugal had already repaid SDR 5.1 billion (approximately EUR 6.6 billion) of loans to IMF.

Sources: European Commission, Economic and Financial Affairs, Financial Assistance in EU Member States, Portugal (http://ec.europa.eu/economy_finance/assistance_eu_ms/portugal/index_en.htm); Eurogroup, Eurogroup Statement on Portugal, press release of May 5, 2014 (http://www.consilium.europa.eu/en/press/press-releases/?stDt=20140505).

Spain. In June 2012, the Spanish government requested financial assistance from the Euro Area Member States for the recapitalization of certain of its financial institutions. In July 2012, the finance ministers of the Euro Area Member States agreed to grant such financial assistance of up to EUR 100 billion, designed to cover the estimated shortfall in capital requirements along with an additional safety margin. The finance ministers of the Euro Area Member States agreed that the Fund for Orderly Bank Restructuring, acting as agent of the Spanish government, would receive the funds and direct them to the financial institutions concerned. The financial assistance was accompanied by policy conditionality focused on the banking sector. The assistance was initially financed by the EFSF and then transferred to the ESM (without applying seniority status). On December 31, 2013, the financial assistance program expired. The ESM has disbursed a total of EUR 41.3 billion to the Spanish government for the recapitalization of the country's banking sector. The ESM announced that Spain will not request any follow-up assistance from the ESM. Spain remains subject to post-program surveillance until at least 75% of the financial assistance received has been repaid. As of the end of March 2015, Spain had already repaid EUR 3.1 billion, in part voluntarily. Barring further early repayments, Spain is expected to be able to exit post-program surveillance in 2023.

Sources: European Commission, Economic and Financial Affairs, Financial Assistance in EU Member States, Spain (http://ec.europa.eu/economy_finance/assistance_eu_ms/spain/index_en.htm); ESM, Financial Assistance, Spain (http://www.esm.europa.eu/assistance/spain/); European Stability Mechanism, Spain successfully exits ESM financial assistance programme, press release of December 31, 2013 (http://www.esm.europa.eu/press/releases/spain-successfully-exits-esm-financial-assistance-programme.htm).

Cyprus. The economic adjustment program for Cyprus was formally agreed in May 2013. The financial package will cover up to EUR 10 billion: the ESM will provide up to EUR 9 billion, and the IMF is expected to contribute around EUR 1 billion. The program addresses Cyprus's financial sector imbalances including an appropriate downsizing of the country's financial sector, fiscal consolidation, structural reforms and privatization. Prior to the program, the Cypriot authorities agreed to split the Cyprus Popular Bank (also known as "Laiki") into a good bank and a bad bank and to merge the good bank with the Bank of Cyprus. Laiki's equity shareholders, bond holders and depositors with deposits of more than EUR 100,000 were required to make a contribution in this process. In addition, deposits with the Bank of Cyprus that exceed EUR 100,000 participated in the capitalization of the bank through the conversion of 47.5% of uninsured deposits (over EUR 100,000) into equity. As of March 2015, ESM and IMF have disbursed a total of EUR 6.1 billion under the program. The fifth review mission by the European Commission, ECB and IMF in July 2014 still remains to be completed after Cyprus suspended the effective application of the new foreclosure framework required under the program in December 2014. Shortly before, the ESM had approved the disbursement of EUR 350 million to Cyprus assuming that the new foreclosure framework would be applied. The IMF however has postponed the disbursement of the next tranche of EUR 86 million.

Sources: European Commission, Economic and Financial Affairs, Financial Assistance in EU Member States, Cyprus (http://ec.europa.eu/economy_finance/assistance_eu_ms/cyprus/index_en.htm); ESM, Financial Assistance, Cyprus (http://www.esm.europa.eu/assistance/cyprus/index.htm); ESM, FAQ- Financial Assistance for Cyprus, dated September 18, 2013 (http://www.esm.europa.eu/pdf/FAQ%20Cyprus%2018092013.pdf); European Commission, Statement by the European Commission, ECB and IMF on Cyprus, press release of February 6, 2015 (https://www.imf.org/external/np/sec/pr/2015/pr1537.htm);ESM, ESM Board of Directors approves €350 million disbursement to Cyprus, press release dated December 8, 2014 (http://www.esm.europa.eu/press/releases/esm-board-of-directors-approves-350-million-disbursement-to-cyprus.htm); European Commission, Statement by the European Commission, ECB and IMF on the Third Review Mission to Cyprus, press release of February 11, 2014 (http://europa.eu/rapid/press-release_MEMO-14-104_en.htm).

Political Integration

The EU's three main institutions are the Council (representing the governments of the Member States), the Parliament (elected by and representing the citizens of the Member States) and the European Commission (the executive body of the EU). In order to ensure that the decision-making process within the EU's institutions continues to work effectively, the European Convention was formed in 2001. Its goal was to draft a European constitution that would set out the powers and responsibilities of the institutions and the decision-making process, thus enabling the EU to cope with its main challenges in the mid-term future, the enlargement of the EU and the increased involvement of EU citizens, by introducing more direct democratic processes and transparency into the governance of the EU. The European constitution was signed by the Heads of State or Government and the foreign ministers in October 2004; it was required to be ratified by all Member States as a precondition to its entry into force. After the failure of referendums on ratification held in France and the Netherlands, the European Council in June 2005 decided to enter a period of reflection on the process of reforming the EU institutions. In June 2007, the European Council decided to convene an Intergovernmental Conference to draft a new EU treaty. The treaty, which was signed by the Heads of State or Government and the foreign ministers in Lisbon in December 2007 (the "Treaty of Lisbon"), largely reflects the institutional reforms embodied in the constitution, while modifying or leaving out certain controversial topics. It entered into force on December 1, 2009.

Sources: European Commission, Europe in 12 lessons by Pascal Fontaine, How does the EU work? (http://bookshop.europa.eu/en/europe-in-12-lessons-pbNA3110652/downloads/NA-31-10-652-EN-C/NA3110652ENC_002.pdf?FileName=NA3110652ENC_002.pdf&SKU=NA3110652ENC_PDF&CatalogueNumber=NA-31-10-652-EN-C); Europa.eu, Summaries of legislation, a constitution for Europe (http://europa.eu/scadplus/constitution/introduction_en.htm); European Council, Declaration by the Heads of State or Government of the Member States of the European Union, June 18, 2005 (http://europa.eu/rapid/pressReleasesAction.do?reference=DOC/05/3&format=HTML&aged=0&language=EN&guiLanguage=en); European Council, The Brussels European Council—June 21 and 22, 2007 (http://europa.eu/legislation_summaries/other/constitution_european_council_2007_en.htm); Europa.eu, Treaty of Lisbon: The treaty at a glance (http://europa.eu/lisbon_treaty/glance/index_en.htm); Europa.eu, Treaty of Lisbon (http://europa.eu/lisbon_treaty/index_en.htm).

Statistical Standards

Statistical Standard for the National Accounts

Since August 2014, the Federal Statistical Office calculates the German national accounts in accordance with the new European System of National and Regional Accounts 2010 ("ESA 2010") which, in turn, is based on the System of National Accounts (SNA 2008) of the United Nations. Recalculations have been conducted for all time series from 1991 and have led to an increase in the gross domestic product at current prices by an average of roughly 3%. The conceptual change causing the largest increase in the level of the gross domestic product is the capitalization of research and development expenditure, accounting for roughly 70% of the overall effect.

Source: Federal Statistical Office, Major revision of national accounts 2014: results and background (https://www.destatis.de/EN/Methods/NationalAccountRevision/Revision2014_BackgroundPaper.pdf?__blob=publicationFile).

Statistical Standard for the Balance of Payments

Since July 2014, the methodological concept of the German balance of payments statistics follows the sixth edition of the Balance of Payments and International Investment Position Manual ("BPM6"), the revised standard of the IMF. The application of BPM6 is binding for Member States by virtue of a regulation adopted by the European Commission. Balance of payments data since 1991 have been recalculated in accordance with BPM6. BPM6 tends to reduce the current account surplus, as some items that were previously counted towards the surplus are now booked in the capital account or the financial account. On average, however, the effect is comparatively low. Furthermore, the level of cross-border movements of goods is distinctly lower under BPM6. One important cause is the different treatment of exports and imports of goods related to manufacturing services where the goods remain the property of the contracting party. These are no longer recorded gross as imports and exports in the goods account. Instead, only the processing fee an enterprise receives for processing the goods is recorded net as a service. The same principle applies to cross-border repairs of goods.

Source: Bundesbank, Changes in the methodology and classifications of the balance of payments and the international investment position, Monthly Report, June 2014 (http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report_Articles/2014/2014_06_methodology_balance_of_payments.pdf?__blob=publicationFile).

Statistical Disclosure Standards of the International Monetary Fund

Since February 2015, the Federal Republic meets the Special Data Dissemination Standard Plus ("SDDS Plus") of the IMF relating to coverage, periodicity and timeliness of economic data. The SDDS Plus was created in 2012 as an extension of the existing Special Data Dissemination Standard ("SDDS"). By providing comparable economic and financial data, it is designed to improve the transparency of the financial sector and its international interdependencies, and thus contribute to identify risks at an early stage. Although adherence by member countries to the SDDS is voluntary, it carries a commitment requiring members to observe the standard and to provide certain information to the IMF about their practices in disseminating economic and financial data.

Source: Bundesministerium der Finanzen, Deutschland stellt ab heute Indikatoren nach dem „speziellen Datenverbreitungsstandard Plus" (SDDS Plus) des IWF bereit, press release of February 18, 2015 (http://www.bundesfinanzministerium.de/Content/DE/Pressemitteilungen/Finanzpolitik/2015/02/2015-02-18-PM07.html?source=stdNewsletter).

THE ECONOMY

Overview

Since 1945, the Federal Republic's economic system has developed into a social market economy, combining the free initiative of the individual with progressive social principles. The Grundgesetz guarantees freedom of private enterprise and private property, provided that these basic rights are not exercised against the public good. The state mainly has a regulatory function in the market economy, setting the general framework of conditions within which market processes take place. State intervention in price setting is limited to a very small number of industries.

Key Economic Figures

The German economy is one of the world's largest economies. In 2014, the GDP of Germany expressed at current prices was EUR 2,903.8 billion, compared to EUR 2,809.5 billion in 2013, which represents an increase of 3.4%. GDP adjusted for price effects rose by 1.6% compared to 2013, and exceeded the 1991 level by 33.7%. 1991 represents the first full year after German reunification on October 3, 1990. The growth in GDP since 1991 has been largely driven by productivity gains, as price-adjusted GDP per employee has risen by 21.6% since 1991. In calculating price-adjusted GDP, the Federal Statistical Office (*Statistisches Bundesamt*) uses a chain index based on the previous year's prices. In 2014, GDP per capita at current prices was EUR 35,237, while GDP per employee at current prices was EUR 68,081.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Tables 2.1.1 and 2.1.4.

As in many advanced economies, the services sector of the Federal Republic has become the largest contributor to GDP (in terms of gross value added). In 2014, services accounted for 68.5% of gross value added, measured at current prices, compared to 62.1% in 1991. The two most important subsectors were "trade, transport, accommodation and food services," accounting for 15.5% in 2014, compared to 16.2% in 1991, and "public services, education, health," accounting for 18.2% of gross value added in 2014, compared to 15.9% in 1991. The production sector (excluding construction) generated 25.9% of gross value added compared to 30.8% in 1991. Construction contributed 4.8% to gross value added in 2014, compared to 6.0% in 1991, and agriculture, forestry and fishing accounted for 0.8% of gross value added in 2014, compared to 1.2% in 1991.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 2.2.1.

In 2014, private final consumption expenditure totaled 55.3% of GDP in current prices, gross capital formation amounted to 18.9% and government final consumption expenditure equaled 19.3%, almost unchanged from 2013. Exports and imports of goods and services accounted for 45.7% and 39.1% of GDP at current prices, respectively. The trade balance (according to national accounts) thus showed a surplus equal to 6.5% of GDP in 2014, compared to 5.8% of GDP in 2013.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 2.3.1.

In 2014, price-adjusted GDP rose by 1.6% compared to 2013. The GDP adjusted for both price and calendar effects, increased by 1.6% compared to 2013. Net exports had a slightly positive effect on economic growth in 2014 (growth contribution: 0.4 percentage points). This was due to the increase in exports of 3.9% (2013: 1.6%) that outpaced the rise in imports of 3.4% (2013: 3.1%), all on a price-adjusted basis. Gross fixed capital formation in machinery and equipment increased in 2014 by 4.3%, compared to a 2.4% decline in 2013, in price-adjusted terms, while gross fixed capital formation in construction increased by 3.6%. Final consumption expenditure of general government rose by 1.1% in 2014 on a price-adjusted basis, and final consumption expenditure of households rose by 1.2% on a price-adjusted basis compared to 2013.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Tables 2.1.1, 2.3.2, 2.3.5 and 2.3.10.

The annual average rate of registered unemployment (as computed under the "national definition" of the Federal Employment Agency (Bundesagentur für Arbeit)) declined from 6.9% in 2013 to 6.7% in 2014. However, based on the internationally comparable method of calculation promulgated by the International Labour Organization ("ILO"), which is referred to as the "ILO definition," the annual average unemployment rate decreased from 4.9% in 2013 to 4.7% in 2014. For an explanation of the differences between the national definition and the ILO definition, see "—Employment and Labor." Inflation as measured by the percentage increase in the national consumer price index ("CPI") decreased to 0.9% in 2014, compared to 1.5% in 2013. Excluding energy prices, the index rose by 1.3%. General government gross debt stood at EUR 2,170.0 billion at year-end 2014, compared to EUR 2,166.0 billion at year-end 2013.

Sources: Bundesagentur für Arbeit, Monatsbericht Februar 2015, Table 5.1; Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 2.1.13; Statistisches Bundesamt, Fachserie 17, Reihe 7 (February 2015), Table 1.1 and 1.2; Deutsche Bundesbank, Time series BBK01.BJ9059: General government debt as defined in the Maastricht Treaty - Germany - overall (http://www.bundesbank.de/Navigation/EN/Statistics/Time_series_databases/Macro_economic_time_series/its_details_value_node.html?tsId=BBK01.BJ9059&listId=www_v27_web001_02a).

The following table shows selected key economic figures for the Federal Republic for each of the years indicated.

KEY ECONOMIC FIGURES

	2014	2013	2012	2011	2010
	(EUR in billions, unless otherwise indicated)				
GDP - at current prices	2,903.8	2,809.5	2,749.9	2,699.1	2,576.2
(change from previous year in %)	3.4	2.2	1.9	4.8	4.9
GDP - price-adjusted, chain-linked index (2010=100), not adjusted for calendar effects	105.8	104.1	104.0	103.6	100.0
(change from previous year in %)	1.6	0.1	0.4	3.6	4.1
GDP - price-adjusted, chain-linked index (2010=100), adjusted for calendar effects	105.9	104.3	104.0	103.4	99.8
(change from previous year in %)	1.6	0.2	0.6	3.7	3.9
Unemployment rate (ILO definition) (in %) (1)	4.7	4.9	5.0	5.5	6.4
Rate of inflation (year-to-year change in consumer price index (CPI) in %)	0.9	1.5	2.0	2.1	1.1
Balance of payments - current account	219.7	182.0	187.3	164.6	145.1
General government gross debt (2)	2,170.0	2,166.0	2,179.8	2,101.8	2,073.7

(1) Unemployed persons, available and seeking work.

(2) Definition according to Maastricht Treaty.

Sources: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 - 4. Vierteljahr 2014 (February 2015), Tables 1.1 and 1.11; Statistisches Bundesamt, Verbraucherpreise, Verbraucherpreisindex für Deutschland, Veränderungsraten zum Vorjahr in % (https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Preise/Verbraucherpreisindizes/Tabellen_/VerbraucherpreiseKategorien.html?cms_gtp=145114_list%253D2%2526145110_slot%253D2&https=1); Deutsche Bundesbank, Monatsbericht März 2015, Table XII.2; Deutsche Bundesbank, Time series BBK01.BJ9059: General government debt as defined in the Maastricht Treaty - Germany - overall (http://www.bundesbank.de/Navigation/EN/Statistics/Time_series_databases/Macro_economic_time_series/its_details_value_node.html?tsId=BBK01.BJ9059&listId=www_v27_web001_02a).

Economic Outlook

In its forecast published in April 2015, the Federal Government projected that GDP in Germany will grow by 1.8% in 2015, with private consumption growing by 2.0% (all growth rates are in price-adjusted terms). Exports and imports are expected to increase by 4.7% and 5.7%, respectively, compared to 2014. Investment in machinery and equipment is projected to increase by 2.8% and construction is forecast to increase by 2.1%. Growth is expected to be driven almost exclusively by domestic demand. The Federal Government expects that domestic employment will increase by approximately 300,000 persons, or 0.7%, in 2015 compared to 2014, reaching a record level of 43.0 million persons in 2015. Registered unemployment (*Arbeitslose*) is expected to decline by 110,000 persons compared to 2014 to approximately 2.79 million persons in 2015 on average.

Source: Bundesministerium für Wirtschaft und Energie, Minister Gabriel: German economy picking up speed, press release of April 22, 2015 (http://www.bmwi.de/EN/Press/press-releases,did=703122.html).

Economic Policy

General

The Federal Government aims to safeguard and build on the foundations for prosperity, social cohesion and a high quality of life in Germany. It is counting on forward-looking investment, on innovation and research, on efficient infrastructure, on the integration of labor and on the continuing internationalization of the German economy. It aims to implement a modern and practical economic policy in order to overcome impediments to productivity.

The German economy remains competitive, and, despite increasing burdens as well as external and internal risks, the Federal Government expects German economic growth to remain robust. Employment and GDP in Germany increased on an annual average basis from 2010 to 2014. In 2014, a record level of domestic employment was reached, with 42.7 million persons employed. For more information on recent economic developments, see "—Key Economic Figures."

Sources: Bundesministerium für Wirtschaft und Energie, 2014 Annual Economic Report (Summary in English: https://www.bmwi.de/BMWi/Redaktion/PDF/J-L/jahreswirtschaftsbericht-2014-engl-fassung,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf, German text: http://www.bmwi.de/BMWi/Redaktion/PDF/J-L/jahreswirtschaftsbericht-2014,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf); Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 2.1.14.

Current Policy Initiatives

Following the formation of a new Federal Government at the end of 2013, the objectives of economic policy have shifted somewhat. The Federal Government will continue the strategy of sound fiscal and budgetary as well as growth enhancing policies. At the same time it will seek to maintain competitiveness and strengthen the growth potential with public investment to be stepped up and conditions for private investment improved, thus broadening the scope for a sustained boost to the long-term performance of the German economy. Current policy initiatives are outlined below in more detail.

The Federal Government has continued the consolidation of public finances, fully adhering both to the requirements stipulated by the constitutional balanced budget rule (known as the "debt brake" (*Schuldenbremse*)), as well as to the European frameworks such as the SGP and the fiscal compact. For further details on the budget surveillance procedures, see "General—The European Union and European Integration—EU Economic Governance." The 2015 federal budget will not require any net new borrowing. A nominal balanced budget without net new borrowing was achieved in 2014—a year ahead of schedule. The Federal Government continues budget planning for all years of the forecast horizon without any new borrowing. This represents a major contribution by the Federal Government towards the planned reduction of the overall national debt rate to below 70% of GDP by the end of 2017 and to below 60% of GDP within ten years of when the current Federal Government took office in 2013. For further information on the Federal Republic's fiscal situation and prospects, see "Public Finance—Germany's General Government Deficit/Surplus and General Government Gross Debt" and "Public Finance—Fiscal Outlook."

The Federal Government is committed to further enhance public sector investment in the next few years. From 2014–2017, it will provide an additional EUR 5 billion for the maintenance and expansion of federal transport infrastructure. From 2016–2018, it plans to provide an additional amount totaling EUR 10 billion for public-sector investment, particularly in infrastructure and energy efficiency. The Federal Government is also assisting the *Länder* and the municipalities by providing a total of approximately EUR 10 billion, e.g., for childcare, schools and higher education, immigration and urban development, over the current legislative term, thus boosting the scope for municipalities and *Länder* to invest. Furthermore, municipalities are to benefit from an additional EUR 5 billion provided by the Federal Government from 2015 to 2018 and an annual relief of EUR 5 billion, beginning in 2015. These measures aim at improving the municipalities' investment capacities. The Federation and the *Länder* have expanded the scope for cooperation permitted to them by the *Grundgesetz* in the field of education and science. The Federal Government is providing an additional EUR 3 billion for research.

The Federal Government has taken measures to increase the revenues generated by road users. The heavy goods vehicle ("HGV") tolls already in place will be extended to a further approximately 1,100 km of four-lane federal roads as of July 1, 2015, and, as of October 1, 2015, will also apply to HGVs with a maximum permissible gross all-in weight of 7.5 tons. In addition, there are plans to introduce an infrastructure levy in the form of a time-based electronic "vignette" for passenger cars. The introduction of this levy aims not to impose a greater financial burden on cars registered in Germany than already exists.

As of December 31, 2019, the rules on fiscal equalization in Germany will cease to apply. Besides the reform of the fiscal equalization system, current negotiations between the Federal Government and the *Länder* aim at a more general restructuring of their fiscal relations. The Federal Government aims to achieve a result during the current legislative term. The regional disparities in the economic structure, the labor market situation and demographic development in Germany make it necessary to continue to provide support to structurally weaker regions after 2019. As a consequence, the Federal Government plans to develop a nationwide support system for the period after 2020 which embraces the structurally weaker regions in Germany and brings various funding elements together into a coherent system. Consideration will also be given to whether and how the funding programs which so far have been focused on eastern Germany can be built into the new system.

The Federal Government also aims to continue developing and adapting tax legislation in order to bring it in line with the needs of a modern society in a globalized world. In the face of technical, economic and demographic changes, the Federal Government intends to modernize the taxation procedure step by step in cooperation with the *Länder*. Furthermore, the goal is to arrive at inheritance and gift taxes which meet constitutional requirements as well as the needs of small and medium-sized businesses and to modernize the real property tax. With targeted tax relief the Federal Government seeks to contribute to the reduction of fiscal drag. Furthermore, measures to combat the shifting of profits across borders by companies which operate internationally are of great significance; the Federal Government is cooperating with its G20 partners in this regard.

In order to ensure that as many workers as possible can benefit from the strong labor market and to secure adequate working conditions, the Federal Government has launched a number of policy measures. With effect from January 1, 2015, a general statutory gross minimum wage of EUR 8.50 per hour worked has been in place. The minimum wage will be adjusted every two years—the first time will be in June 2016 with effect from January 1, 2017—as proposed by a commission comprising representatives of the unions and of the employers' associations in equal shares. The Federal Government has presented a comprehensive concept to increase the chances of long-term unemployed persons regaining access to the regular labor market. Legislation is to be introduced that resolves conflicts between trade unions in collective bargaining. While recognizing that the use of temporary workers and contracts for work and services enable many people to participate in working life and permit companies to respond flexibly, the Federal Government has announced that it will take targeted action against illegal contract clauses and aims to restrict the use of temporary workers to times of extraordinary capacity needs.

The Federal Government is developing strategies to counteract the effects of demographic change on the business sector and to maintain the performance of the German economy. The aim is to strengthen and activate the potential pool of skilled labor in the domestic economy and to make Germany more attractive for qualified professionals from other countries. By reforming the Federal Training Assistance Act (*Bundesausbildungsförderungsgesetz*), which provides the regulatory framework for student loans, the Federal Government is making an important contribution towards improving the situation of students at school and in higher education. Making family and working life more compatible not only contributes to equal opportunity, but also to activating additional skills for companies. Accordingly, the Federal Government has introduced "parental allowance plus" to assist young parents in working part-time and to re-enter working life more quickly. The pension system is to make it more attractive for employees in good health to remain in work for as long as possible. In order to provide greater support to working patterns that fit in with other aspects of life, the statutory framework for a more flexible transition from working life to retirement is to be improved. In addition, a working group is looking both into continuing flexible work up to the statutory effective pension age, and into the possibilities of attractive continuing work after that age.

Following the nuclear disaster which affected the Japanese nuclear power plant in Fukushima in March 2011, the Federal Government decided to accelerate the transition to a more sustainable energy set-up (*Energiewende*). Among other things, this energy concept provides for the shutdown of all nuclear power stations in Germany by 2022 and unites other key energy policy objectives (i.e., energy security, climate protection, energy efficiency, renewable energy) within a single strategy. It sets a long-term target of achieving an 80% reduction in greenhouse gas emissions by 2050, compared to 1990 levels. To this end, the energy concept is intended to increase the production and use of renewable energy sources, making them the primary source of German energy supply. The overarching principle for the future implementation of the energy reforms is the "energy policy triangle" of a secure, affordable and environmentally compatible energy supply.

The Federal Government's reform of the Renewable Energy Sources Act (*Erneuerbare-Energien-Gesetz*) has placed the future expansion of renewable energy sources on a viable basis. The other key projects for the current legislative term have been consolidated in a 10-point Energy Agenda, and coordinated in terms of timing and substance so that the energy transition can be rolled out in a methodical and efficient manner. The National Energy Efficiency Action Plan, which was adopted in December 2014, sets out the Federal Government's efficiency strategy for this legislative term. It aims to raise awareness of the economic viability of efficiency measures on a cross-sectoral basis and to put the conditions in place for full use to be made of the potential for efficiency improvements. The energy efficiency strategy for buildings, which the Federal Government is drafting this year, is intended to make a major contribution towards the achievement of a virtually climate-neutral building stock in Germany by 2050. In the 2020 Climate Action Plan, the Federal Government has adopted further measures to reduce greenhouse-gas emissions by at least 40% between 1990 and 2020 in Germany. The Grid Expansion Acceleration Act (*Netzausbaubeschleunigungsgesetz*) and the Federal Requirements Plan Act (*Bundesbedarfsplangesetz*) provide the framework for a methodical and accelerated expansion of the transmission grids. The first formal procedures for federal planning of the expansion of the transmission grids have been set in motion. The distribution grids are also to be made fit for the energy transition, and the rules are to be made more investment-friendly. A package of ordinances is under preparation for the use of smart metering systems and meters.

For information on recent government measures to stabilize Germany's financial system, see "Monetary and Financial System—The German Financial System." For information on government budgets, see "Public Finance." For information on the response to the European sovereign debt crisis, see "General—The European Union and European Integration—Response to the European Sovereign Debt Crisis" and "General—The European Union and European Integration—EU Economic Governance."

Sources: Bundesministerium für Wirtschaft und Energie, 2015 Annual Economic Report (Summary in English: http://www.bmwi.de/English/Redaktion/Pdf/jahreswirtschaftsbericht-2015-englische-zusammenfassung,property=pdf,bereich=bmwi2012,sprache=en,rwb=true.pdf, German text: http://www.bmwi.de/BMWi/Redaktion/PDF/J-L/jahreswirtschaftsbericht-2015,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf); Bundesministerium für Wirtschaft und Energie, 2014 Annual Economic Report (Summary in English: https://www.bmwi.de/BMWi/Redaktion/PDF/J-L/jahreswirtschaftsbericht-2014-engl-fassung,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf, German text: http://www.bmwi.de/BMWi/Redaktion/PDF/J-L/jahreswirtschaftsbericht-2014,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf); Bundesministerium für Wirtschaft und Energie, 2013 Annual Economic Report (http://www.bmwi.de/English/Redaktion/Pdf/2013-annual-economic-report-competitiveness-_20key-to-growth,property=pdf,bereich=bmwi,sprache=en,rwb=true.pdf); Bundesministerium für Wirtschaft und Technologie, 2012 Annual Economic Report (http://www.bmwi.de/English/Navigation/Service/publications,did=479718.html).

Gross Domestic Product

The following tables show the structure of the Federal Republic's GDP at current prices by use and origin for each of the years indicated along with changes over the respective preceding period.

STRUCTURE OF GDP—USE

	2014	2013	2012	2011	2010	2014	2013	2012	2011
	(EUR in billions)					(change in %)			
Domestic uses	2,714.4	2,646.2	2,588.2	2,568.7	2,442.7	2.6	2.2	0.8	5.2
Final private consumption	1,604.7	1,571.5	1,539.5	1,506.8	1,445.7	2.1	2.1	2.2	4.2
Final government consumption	561.5	541.2	521.3	505.7	493.9	3.7	3.8	3.1	2.4
Gross fixed capital formation	581.0	555.8	551.2	544.3	498.0	4.5	0.8	1.3	9.3
Machinery and equipment	185.6	177.9	181.7	185.9	174.5	4.3	-2.1	-2.2	6.6
Construction	293.4	279.2	273.9	264.7	237.1	5.1	1.9	3.4	11.6
Other products	102.1	98.8	95.6	93.6	86.5	3.3	3.3	2.1	8.3
Changes in inventories (1)	-32.8	-22.3	-23.9	11.9	5.0	—	—	—	—
Net exports (1)	189.4	163.3	161.7	130.4	133.6	—	—	—	—
Exports	1,326.2	1,280.1	1,262.9	1,209.4	1,089.6	3.6	1.4	4.4	11.0
Imports	1,136.7	1,116.9	1,101.1	1,078.9	956.1	1.8	1.4	2.1	12.8
Gross domestic product	**2,903.8**	**2,809.5**	**2,749.9**	**2,699.1**	**2,576.2**	**3.4**	**2.2**	**1.9**	**4.8**

(1) Percentage changes are not presented due to the potentially changing signs of these net positions.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2014 (February 2015), Tables 3.1 and 3.9.

STRUCTURE OF GDP—ORIGIN

	2014	2013	2012	2011	2010	2014	2013	2012	2011
	(EUR in billions)					(change in %)			
Gross value added of all economic sectors	2,611.8	2,525.6	2,470.2	2,424.1	2,317.3	3.4	2.2	1.9	4.6
Agriculture, forestry and fishing	20.1	21.7	21.6	19.5	17.2	-7.2	0.4	10.5	13.7
Production sector (excluding construction)	676.7	659.2	645.9	630.8	594.5	2.7	2.0	2.4	6.1
Construction	125.5	116.5	112.0	107.4	100.6	7.7	4.0	4.2	6.8
Trade, transport, accommodation and food services	404.3	393.4	390.0	390.4	370.9	2.8	0.9	-0.1	5.3
Information and communication	122.3	118.0	117.2	111.9	102.8	3.7	0.6	4.7	8.9
Financial and insurance services	104.3	103.2	102.4	100.5	105.6	1.1	0.7	1.9	-4.8
Real estate activities	289.9	281.3	277.5	281.7	269.0	3.0	1.4	-1.5	4.7
Business services	284.2	270.3	260.5	254.4	245.2	5.2	3.8	2.4	3.7
Public services, education, health	476.6	458.4	441.8	427.9	414.7	4.0	3.8	3.2	3.2
Other services	108.0	103.8	101.4	99.4	96.8	4.0	2.4	2.0	2.7
Taxes on products offset against subsidies on products	292.0	283.9	279.7	275.0	258.9	2.9	1.5	1.7	6.2
Gross domestic product	**2,903.8**	**2,809.5**	**2,749.9**	**2,699.1**	**2,576.2**	**3.4**	**2.2**	**1.9**	**4.8**

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2014 (February 2015), Tables 1.14 and 2.1.

Sectors of the Economy

Production Sector

Following German reunification in 1990, industry in the eastern *Länder* (i.e., the former German Democratic Republic), has undergone a restructuring process. Today, the German production sector is characterized by a balanced mix of small, medium and large enterprises and is almost entirely privately owned. Measured by its share in value added, approximately 60% of the production sector is geographically concentrated in the western *Länder* of Bavaria, North Rhine-Westphalia and Baden-Württemberg. The main segments of the production sector relate to the manufacturing of motor vehicles, machinery and equipment, electrical and optical equipment, basic metals and fabricated metal products, as well as chemicals and chemical products. In 2014, the production sector's aggregate contribution to gross value added at current prices was 25.9% (excluding construction) and 30.7% (including construction), respectively. Its price-adjusted gross value added (excluding construction) increased by 1.4% year-on-year in 2014, after increasing only slightly by 0.2% in 2013.

Sources: Volkswirtschaftliche Gesamtrechnungen der Länder, Reihe 1, Ländergebnisse Band 1 (April 2015), Table 2.3; Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Tables 2.2.1 and 2.2.2.

OUTPUT IN THE PRODUCTION SECTOR (1)
(2010 = 100)

	2014	2013	2012	2011
Production sector, total	**108.0**	**106.4**	**106.2**	**106.7**
Industry (2)	109.9	107.8	107.4	108.1
of which:				
Intermediate goods (3)	106.1	104.4	104.6	107.0
Capital goods (4)	116.7	114.0	113.3	111.9
Durable goods (5)	100.5	100.1	100.5	104.2
Nondurable goods (6)	102.6	100.7	99.8	101.3
Energy (7)	92.4	96.4	97.3	95.6
Construction (8)	108.4	105.6	105.9	107.0

(1) Adjusted for working-day variations.

(2) Manufacturing sector, unless assigned to the main grouping energy, plus mining and quarrying.

(3) Including mining and quarrying except energy-producing goods.

(4) Including manufacture of motor vehicles and components.

(5) Consumption goods that have a long-term use, such as furniture.

(6) Consumption goods that have a short-term use, such as food. Including printing and service activities related to printing.

(7) Electricity, gas, steam and hot water supply, mining and quarrying of energy-producing materials, and especially manufacture of refined petroleum products.

(8) Comprises the economic classifications “Site preparation” and “Building of complete constructions or parts thereof; civil engineering.”

Source: Deutsche Bundesbank, Monatsbericht März 2015, Table XI.2.

Services Sector

As in most other industrialized countries, the services sector, which comprises “trade, transport, accommodation and food services,” “information and communication,” “financial and insurance services,” “real estate activities,” “business services,” “public services, education, health” as well as “other services,” has expanded rapidly in recent years and is currently the largest contributor to gross value added. In 2014, the services sector’s aggregate contribution to gross value added at current prices increased slightly to 68.5% (after 68.4% in 2013 and only 62.1% in 1991). Within the services sector, “public services, education, health” represented the largest subsector in terms of contribution to total gross value added at current prices, contributing 18.2% in 2014 and 18.1 % in 2013, compared to 15.9% in 1991.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 2.2.1.

Employment and Labor

As economic growth gained momentum in 2014, labor market conditions improved further. In 2014, the average unemployment rate according to the national definition was 6.7%, compared to 6.9% in 2013. Under the ILO definition, the average unemployment rate was 4.7% in 2014 compared to 4.9% in 2013, having declined to the lowest level of unemployment since 1991. The number of persons resident in Germany who were either employed or self-employed in 2014 was 42.7 million, an increase of 0.9% compared to 2013.

Sources: Bundesagentur für Arbeit, Der Arbeits- und Ausbildungsmarkt in Deutschland: Monatsbericht Februar 2015, Table 5.1 (http://statistik.arbeitsagentur.de/Statischer-Content/Arbeitsmarktberichte/Monatsbericht-Arbeits-Ausbildungsmarkt-Deutschland/Monatsberichte/Generische-Publikationen/Monatsbericht-201502.pdf); Fachserie 18, Reihe 1.4 - 2014 (March 2015), Tables 2.1.13 and 2.1.14 (https://www.destatis.de/DE/Publikationen/Thematisch/VolkswirtschaftlicheGesamtrechnungen/Inlandsprodukt/InlandsproduktsberechnungVorlaeufigPDF_2180140.pdf?__blob=publicationFile).

The following table presents data with respect to employment and unemployment for each of the years indicated. Persons who are participating in programs such as vocational training, job creation plans or early retirement, which are designed to reduce unemployment are not included in the unemployment rates shown below, as they are not treated as unemployed.

EMPLOYMENT AND UNEMPLOYMENT

	2014	2013	2012	2011	2010
Employed (in thousands)–ILO definition	42,598	42,226	41,979	41,522	40,983
Unemployed (in thousands)–ILO definition (1)	2,088	2,182	2,224	2,399	2,821
Unemployment rate (in %)–ILO definition	4.7	4.9	5.0	5.5	6.4
Unemployed (in thousands)–national definition (2)	2,898	2,950	2,897	2,976	3,239
Unemployment rate (in %)–national definition (3)	6.7	6.9	6.8	7.1	7.7

(1) Unemployed persons, available and seeking work.

(2) Registered unemployed persons, available and seeking work (but including persons working up to 15 hours per week).

(3) As a percentage of the total work force (excluding armed forces).

Sources: Bundesagentur für Arbeit, Der Arbeits- und Ausbildungsmarkt in Deutschland: Dezember und das Jahr 2014, Table 10.1; Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2014 (February 2015), Table 1.11.

In 2014, gross wages and salaries per employee in Germany increased by 2.7%. Unit labor costs per hour worked rose by 1.6% in 2014 after an increase of 2.2% in 2013.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2. - 4. Vierteljahr 2014 (February 2015), Tables 2.17 and 2.20. (https://www.destatis.de/DE/Publikationen/Thematisch/VolkswirtschaftlicheGesamtrechnungen/Inlandsprodukt/InlandsproduktsberechnungVjPDF_2180120.pdf?__blob=publicationFile).

The following table shows changes in the annual wage level per employee and unit labor costs per hour worked for each of the years indicated.

WAGE TRENDS AND LABOR COSTS

	2014	2013	2012	2011	2010
Gross wages and salaries per employee in EUR	31,578	30,755	30,128	29,320	28,388
Change from previous year in %	2.7	2.1	2.8	3.3	2.5
Unit labor costs per hour worked					
Index (2010=100)	107.5	105.8	103.5	100.5	100.0
Change from previous year in %	1.6	2.2	3.1	0.4	-1.5

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2014 (February 2015), Tables 2.17 and 2.20.

More than one-sixth of the German work force consists of members of unions. The German Trade Union Federation (*Deutscher Gewerkschaftsbund*) serves as an umbrella organization for eight such unions. In 2014, approximately 6.1 million persons were members of a union under the umbrella of the *Deutscher Gewerkschaftsbund*, roughly unchanged since 2013, but considerably less compared to the 11.8 million members in 1991, the first full year after German reunification. One major reason contributing to the strong decline since 1991 is the significant fall in manufacturing employment in the eastern *Länder* after reunification.

Each member union typically covers employees of an entire industry, regardless of the precise type of work done by those employees (the "one union, one industry" principle). As a result, employers usually deal with only one negotiating partner on the labor side in each specific industry. The unions and employers of each specific industry enter into collective labor agreements (*Tarifverträge*) without government intervention. The collective labor agreements often apply to all employees of a given industry, regardless of whether or not a particular employee is a member of a union, so long as the employer is a member of the relevant association of employers, which is often the case. Despite their binding character, collective labor agreements in many cases contain opt-out clauses (*Öffnungsklauseln*) allowing for company-specific adjustments to be negotiated between the employer and the works council at the specific company. Moreover, there is a range of additional possibilities to deviate from these agreements. Many employers in the eastern *Länder* are not members of employers' associations, which means that wages are individually negotiated, often resulting in wage levels that are lower than those provided for by the collective labor agreements.

Sources: OECD.Stat, Dataset Trade Union Density (http://stats.oecd.org/Index.aspx?QueryId=20167); Deutscher Gewerkschaftsbund, DGB-Mitgliederzahlen ab 2010 (http://www.dgb.de/uber-uns/dgb-heute/mitgliederzahlen/2010); Deutscher Gewerkschaftsbund, Mitgliederzahlen 1950-1993 (http://www.dgb.de/uber-uns/dgb-heute/mitgliederzahlen/1950-1993); European Trade Union Institute, National Industrial Relations, Countries, Germany, Trade Unions (http://www.worker-participation.eu/Nationale-Arbeitsbeziehungen/Laender/Deutschland/Gewerkschaften); Bundeszentrale für politische Bildung, Tarifautonomie, (http://www.bpb.de/nachschlagen/lexika/handwoerterbuch-politisches-system/40387/tarifautonomie?buchstabe=J).

Social Security, Social Protection and Social Policy

The comprehensive system of social security and protection in effect in the Federal Republic includes in particular health insurance, long-term care insurance, retirement and disability pensions, participation benefits and benefits for medical rehabilitation, protection against the effects of occupational accidents and diseases by means of the mandatory occupational accident insurance, unemployment benefits, family benefits, benefits and rehabilitation for persons with disabilities, allowances to orphans and to single persons with dependents, and the provision of general public assistance to needy persons. The majority of the German population is covered by mandatory statutory retirement pensions and health insurance. Hospitals and institutions caring for children and handicapped persons are operated by municipalities, churches, charitable institutions, and private providers.

Most of these social services are mainly funded through social security contributions from employers and employees, and a smaller part is funded through direct contributions by the Federal Republic, the *Länder*, municipalities and other public institutions, depending notably upon whether the respective social service is provided by an insurance-based system funded through contributions or a social-assistance-like program funded through taxes.

The Federal Republic's statutory retirement insurance system operates on a pay-as-you-go basis, with contributions from current employers and employees funding payments to current retired persons. Generally, all employed and some self-employed and other persons are subject to mandatory insurance in the statutory retirement system. Certain persons, including employed members of particular professions (including some free-lance professions) may apply for exemption, while others, as in the case of civil servants, are automatically exempted from mandatory participation in the statutory retirement pension insurance system. Instead, exempted persons have to contribute to professional or public pension schemes or, in the case of civil servants and similar groups, they will benefit from special pension schemes for civil servants. Further, the Retirement Funds Act (*Altersvermögensgesetz*) aims to ensure the long-term viability of the statutory retirement pension insurance system by encouraging insureds to also sign up for designated privately funded or funded corporate pension schemes, for which certain bonus payments and tax incentives are provided, with a view to offsetting the expected decline of payments from the statutory retirement pension insurance.

Statutory health insurance coverage must be made available to all persons fulfilling the applicable eligibility criteria. Within the statutory health insurance system, insureds may choose among a large number of statutory health insurance funds that have developed historically. Persons whose gross income exceeds certain thresholds as well as civil servants, self-employed persons and members of certain professions may opt out of the statutory system and choose private health insurance coverage, which, in case of opting-out, is obligatory as well. Contributions to the statutory health insurance system are based solely on the insured's income situation and are independent of the insured's gender, age and medical risk. By contrast contributions towards private health insurance coverage are mainly calculated based on age, medical risk and the desired level of coverage. Until December 2012, reference was also made to the insured's gender. Following a ruling of the European Court of Justice, the principle of equal treatment of men and women in private health insurance applies to new contracts from December 2012 onwards.

In 2014, social security revenue, as shown in the national accounts, amounted to EUR 557.3 billion, and expenditure was EUR 553.9 billion. The social security budget thus incurred a surplus of EUR 3.4 billion in 2014, after a surplus of EUR 6.1 billion in 2013.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.7.

In light of a changing population structure, the Federal Government has already implemented structural reforms of the statutory pension system in order to safeguard the sustainability of the social security system in the long term. To increase the sustainability of the health care system, Germany has implemented several structural reform measures in recent years to strengthen competition among payers and providers in order to improve the efficiency and quality of health care services. In addition, Germany has implemented reforms of the statutory pension insurance which gradually raise the regular retirement age by two years to the age of 67 between 2012 and 2029. Since 2012, people with an insurance record with at least 45 years of mandatory contributions from employment or care or child-raising periods up to the child's tenth year can claim a pension from age 65 without reductions. In July 2014, the Federal Government temporarily reduced the retirement age to the age of 63 for this exemption from the age limit increase; the age of 63 will be gradually raised back to 65 years from 2016 to 2029.

Sources: Bundesministerium für Wirtschaft und Technologie, 2012 Annual Economic Report (http://www.bmwi.de/English/Navigation/Service/publications,did=479718.html); Growth. Education. Unity. Coalition Agreement between CDU, CSU and FDP, page 121 (http://www.cdu.de/sites/default/files/media/dokumente/091215-koalitionsvertrag-2009-2013-englisch_0.pdf); Bundesministerium der Gesundheit, Gesundheitsfonds (http://www.bmg.bund.de/themen/krankenversicherung/finanzierung/gesundheitsfonds.html); Bundesministerium für Arbeit und Soziales, Altersrenten (http://www.bmas.de/DE/Themen/Rente/Gesetzliche-Rentenversicherung/Leistungen/Altersrenten/altersrenten.html); Bundesministerium für Arbeit und Soziales, Fragen und Antworten zur Rente mit 67 (http://www.bmas.de/EN/Our-Topics/Pensions/pensions-from-age-67.html); Bundesministerium für Arbeit und Soziales, press release of January 29, 2014 (http://www.bmas.de/DE/Service/Presse/Pressemitteilungen/rentenpaket-kabinettsbeschluss.html); Bundesministerium für Arbeit und Soziales, Abschlagsfreie Rente ab 63 (http://www.rentenpaket.de/rp/DE/Alle-Fakten/Die-Leistungen/Rente-ab-63/rente-mit-63.html).

International Economic Relations

International economic relations are of major importance to the German economy. In 2014, exports and imports of goods and services amounted to 45.7% and 39.1% of GDP at current prices, respectively. The Federal Republic pursues a liberal foreign trade policy aimed at dismantling tariffs and other barriers to trade.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 2.3.1.

Because the Federal Republic's economy depends on exports, it is particularly vulnerable to trade barriers, such as protective tariffs. The Federal Government thus supports efforts to reduce trade barriers, such as the current negotiations within the framework of the WTO under the Doha Development Agenda and the negotiations for the proposed Transatlantic Trade and Investment Partnership between the EU and the United States.

Sources: Bundesministerium für Wirtschaft und Technologie, Handelspolitik EU / WTO (http://www.bmwi.de/DE/Themen/Aussenwirtschaft/Handelspolitik/wto,did=615530.html); Bundesministerium für Wirtschaft und Energie, TTIP: The Transatlantic Trade and Investment Partnership between the EU and the U.S., Negotiations and Stakeholders (http://www.bmwi.de/EN/Topics/Foreign-trade/TTIP/negotiations-and-stakeholders.html).

Balance of Payments

The Federal Republic typically achieves a surplus in the trading of goods. Traditionally, this surplus has been partially offset by deficits in other fields, such as secondary income. In 2014, the current account surplus totaled EUR 219.7 billion, compared to EUR 182.0 billion in 2013, an increase of 20.7%.

Source: Deutsche Bundesbank, Monatsbericht März 2015, Table XII.2.

According to data prepared by the Deutsche Bundesbank, applying the annual averages of a broad monthly indicator of Germany's price competitiveness compared to 56 trading partners based on consumer price indices, Germany's price competitiveness has been relatively stable since 1999, fluctuating within a range of 10% of the average indicator value in the period from 1999 to 2014. In 2014, price competitiveness deteriorated by 0.8%, mainly due to the appreciation of the euro relative to several currencies, including the Japanese Yen, the Canadian Dollar, the Norwegian Krone and the Swedish Krona. However, the influence of variations in the exchange rates should be viewed in light of the fact that the Euro Area Member States account for a major part of German exports (36.8% in 2014).

Since the introduction of the euro, the exchange rate against the U.S. dollar has shown high volatility. After appreciating by approximately 85% against the U.S. dollar between June 2001 and July 2008, the euro depreciated considerably relative to the U.S. dollar by approximately 23% between July 2008 and June 2010, breaking a long-term trend of appreciation. In 2014, the euro appreciated by 0.03% from its 2013 average versus the U.S. dollar. However, the average value of the euro against the U.S. dollar in March 2015 was 18.4% lower than the 2014 average.

Sources: Deutsche Bundesbank, Monatsbericht März 2002, Table X.11; Deutsche Bundesbank, Monatsbericht März 2009, Table XI.11; Deutsche Bundesbank, Monatsbericht März 2011, Table XI. 11; Deutsche Bundesbank, Monatsbericht April 2015, Tables XII.2, XII.3, XII.10 and XII.12.

The following table shows the Federal Republic's balance of payments for each of the years indicated.

BALANCE OF PAYMENTS (BALANCES)

	2014	2013	2012	2011	2010
			(EUR in millions)		
Current account					
Trade in goods (1)	229,301	207,597	196,579	163,426	161,146
Services (2)	-39,112	-44,755	-35,905	-32,471	-27,477
Primary income	66,922	60,247	66,811	69,102	51,101
Secondary income	-37,421	-41,069	-40,139	-35,505	-39,669
Total current account	**219,690**	**182,020**	**187,345**	**164,552**	**145,101**
Capital account (3)	2,826	1,142	1,427	1,642	1,219
Financial account					
Net German investment abroad (increase: +)	293,211	36,997	376,169	261,157	418,365
Net foreign investment in Germany (increase: +)	49,384	-170,922	218,708	140,309	325,606
Net financial account (net lending: + / net borrowing: -)	**243,827**	**207,920**	**157,461**	**120,849**	**92,759**
Net errors and omissions (4)	21,311	24,758	-31,312	-45,345	-53,560

(1) Including supplementary trade items.

(2) Including the freight and insurance costs of foreign trade.

(3) Including net acquisition/disposal of non-produced non-financial assets.

(4) Statistical errors and omissions, resulting from the difference between the balance on the financial account and the balances on the current account and the capital account.

Source: Deutsche Bundesbank, Statistisches Beiheft 3 zum Monatsbericht März 2015, Zahlungsbilanzstatistik, Tables I.1 and I.9.a.

Balance of Trade

The following tables show information relating to foreign trade of the Federal Republic for each of the years indicated.

TRADE IN GOODS (1)

	2014	2013	2012	2011	2010
			(EUR in millions)		
Exports of goods	1,123,764	1,083,535	1,074,091	1,030,114	918,340
Imports of goods	894,464	875,938	877,512	866,687	757,194
Trade balance	**229,301**	**207,597**	**196,579**	**163,426**	**161,146**

(1) Including supplementary trade items.

Source: Deutsche Bundesbank, Statistisches Beiheft 3 zum Monatsbericht März 2015, Zahlungsbilanzstatistik, Table I.1.

The Federal Republic's principal export goods are motor vehicles, machinery of all kinds, and chemical products. The principal import goods are crude petroleum and natural gas, computer, electronic and optical products and motor vehicles. The Federal Republic has relatively few resources of industrial raw materials. As a result, it largely depends on imports to satisfy its demand for raw materials. This dependence on foreign supplies is particularly significant in the case of metals such as copper, tungsten, niobium, rare earth, rock phosphate, lithium carbonate, bauxite, manganese, titanium, and tin. The Federal Republic currently imports about two-thirds of its energy requirements, including virtually all of its oil and a significant portion of its natural gas requirements as well as all enriched uranium needed for nuclear energy.

Sources: Statistisches Bundesamt, Fachserie 7 Reihe 1 - November 2013, page 58; Bundesanstalt für Geowissenschaften und Rohstoffe, Deutschland – Rohstoffsituation 2013, page 20; Bundesministerium für Wirtschaft und Technologie, Zahlen und Fakten Energiedaten, Tabelle 3 (http://bmwi.de/DE/Themen/Energie/Energiedaten-und-analysen/Energiedaten/gesamtausgabe,did=476134.html).

Germany's Current Account Surplus and the Macroeconomic Imbalance Procedure

Within the framework of the MIP established in 2011, the European Commission published the Alert Mechanism Report 2015 on November 28, 2014, which, similar to the previous year's report, *inter alia* noted the current account surplus observed in Germany. Following publication of the report, an in-depth review process was initiated on Germany to scrutinize its external position and analyze internal developments, and to assess whether it is experiencing macroeconomic imbalances. According to the results of this review, Germany is experiencing macroeconomic imbalances, which require monitoring and decisive policy action. The Commission points out that risks have increased in light of the persistence of insufficient private and public investment, which represents a drag on growth, and contributes to the very high current account surplus which continues to deserve close attention. The need for policy action was formulated with greater urgency than the previous year by adding "decisive" to the corresponding assessment, but this does not imply that there will be an escalation as far as procedures are concerned. The imbalances identified for Germany are neither considered to be excessive nor ground for enhanced surveillance. The Federal Government supports the European Commission in the resolute implementation of the MIP. Together with the European partners, the Federal Government aims to reduce economic imbalances while complying with the rules of the reformed SGP. However, it points out that the competitiveness and the exporting strength of German companies are a pillar of the entire European economy. The measures proposed by the new German government after the September 2013 elections are designed to enhance public and private investment and strengthen the domestic growth drivers, thus contributing to the reduction of imbalances. Important steps in that direction were taken already and more will follow.

Sources: European Commission, Report from the Commission to the European Parliament, the Council, the European Central Bank and the European Economic and Social Committee, Alert Mechanism Report 2015 dated November 28, 2014 (http://ec.europa.eu/europe2020/pdf/2015/amr2015_en.pdf); European Commission, Communication from the Commission to the European Parliament, the Council, the European Central Bank and the Eurogroup, 2015 European Semester: Assessment of growth challenges, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011, dated February 26, 2015 (http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_comm_en.pdf); Bundesministerium für Wirtschaft und Energie, Gabriel: Competitiveness and exports of German companies important for Europe, press release of March 5, 2014 (http://www.bmwi.de/EN/Press/press-releases,did=629018.html); European Commission, Economic and Financial Affairs, EU Economic Governance, Macroeconomic Imbalance Procedure (http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm); Bundesministerium für Wirtschaft und Energie, Nationales Reformprogramm 2015 (http://www.bmwi.de/BMWi/Redaktion/PDF/M-O/nationales-reformprogramm-2015,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf).

Composition of Exported and Imported Goods

	2014 (1)	
	Imports	Exports
	(Percent of total)	
Products of agriculture and hunting	2.9	0.8
Products of forestry	0.1	0.0
Fish and products of fishing	0.1	0.0
Coal and lignite	0.5	0.0
Crude petroleum and natural gas	9.0	0.9
Metal ores	0.8	0.0
Other mining and quarrying products	0.2	0.1
Food products	4.4	4.3
Beverages	0.6	0.4
Tobacco products	0.1	0.3
Textiles	1.1	0.9
Wearing apparel	3.1	1.3
Leather and related products	1.2	0.5
Wood and of products of wood and cork, except furniture; articles of straw and plaiting materials	0.6	0.5
Paper and paper products	1.6	1.7
Coke and refined petroleum products	3.0	1.3
Chemicals and chemical products	8.0	9.4
Basic pharmaceutical products and pharmaceutical preparations	4.4	5.4
Rubber and plastic products	2.9	3.5
Other non-metallic mineral products	1.0	1.2
Basic metals	5.5	4.4
Fabricated metal products, except machinery and equipment	2.7	3.4
Computer, electronic and optical products	9.7	7.9
Electrical equipment	5.2	6.0
Machinery and equipment not elsewhere classified	7.6	14.5
Motor vehicles, trailers and semi-trailers	9.4	17.9
Other transport equipment	4.0	4.5
Furniture	1.2	0.8
Energy	0.2	0.3
Other goods	9.1	7.5
Total	**100.0**	**100.0**

(1) Preliminary data.

Source: Statistisches Bundesamt, Fachserie 7, Reihe 1 – 2014 (March 2015), Tables 1.11.1 and 1.11.2; calculation of percentages by KfW based on import and export values in EUR thousands, respectively.

Foreign Trade (Special Trade) by Groups of Countries and Countries (1)

	2014	2013	2012
		(EUR in millions)	
Exports to:			
Total	**1,133,539**	**1,093,115**	**1,095,766**
of which:			
France	102,066	99,980	102,911
United States	96,077	89,348	86,971
United Kingdom	84,005	75,488	73,283
China (2)	74,504	66,912	66,746
The Netherlands	73,094	70,970	70,381
Austria	56,218	56,276	56,591
Italy	54,508	53,247	55,529
Southeast Asia (3)	48,563	45,894	45,651
Belgium/Luxembourg	47,717	47,980	49,424
Switzerland	46,270	46,924	48,933
Spain	34,944	31,349	31,047
Japan	16,919	17,076	17,138
Imports from:			
Total	**916,635**	**898,164**	**905,925**
of which:			
The Netherlands	88,132	88,680	85,738
China (2)	79,485	74,544	78,529
France	67,516	64,018	64,035
United States	48,573	48,582	51,070
Italy	48,517	46,930	47,957
Belgium/Luxembourg	43,042	42,033	40,528
United Kingdom	42,291	42,513	42,820
Switzerland	39,325	38,321	37,775
Southeast Asia (3)	38,663	36,672	37,428
Austria	36,407	36,793	36,419
Spain	25,987	23,639	23,206
Japan	19,053	19,492	21,910

(1) Exports (f.o.b.) by country of destination, imports (c.i.f.) by country of origin. Special trade consists mainly of goods that are imported into the Federal Republic for use, consumption, adaptation or processing, as well as goods that are produced, manufactured, adapted or processed in the Federal Republic and subsequently exported.

(2) Excludes Hong Kong.

(3) Includes Brunei Darussalam, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

Source: Deutsche Bundesbank, Monatsbericht April 2015, Table XII.3.

MONETARY AND FINANCIAL SYSTEM

The European System of Central Banks and the Eurosystem

The ESCB comprises the ECB and the national central banks of the Member States, while the Eurosystem consists of the ECB and the national central banks of the Euro Area Member States.

The Eurosystem is responsible for the single monetary policy for the euro area. Its decision-making bodies are the Governing Council and the Executive Board of the ECB. The national central banks of the Member States that are not part of the Eurosystem are represented in the General Council of the ECB, but have no voting right in the decision-making process, particularly with respect to monetary policy. The ESCB's primary objective is to maintain price stability. Without prejudice to this objective, the ESCB supports the general economic policies of the EU.

The Deutsche Bundesbank—Germany's national central bank within the ESCB—has the responsibility of implementing the single monetary policy in Germany and continues to perform various other tasks, including operating cashless payment systems, cash management and playing an important role in banking and financial market supervision, as further described below under the caption "—Financial System."

Sources: European Central Bank, Annual Report 2004, pages 162-168 (http://www.ecb.eu/pub/pdf/annrep/ar2004en.pdf); Deutsche Bundesbank, Tasks and organisation (http://www.bundesbank.de/Navigation/EN/Bundesbank/Tasks_and_organisation/Tasks/tasks.html).

Monetary Policy Instruments of the ESCB

To achieve its operational goals, the ESCB conducts open market operations, offers standing facilities and requires credit institutions to maintain minimum reserves in accounts with the ESCB. Open market operations play an important role in the ESCB's monetary policy for the purposes of steering interest rates and managing the liquidity situation in the market. Available open market operations are reverse transactions, outright transactions, the issuance of debt certificates or foreign exchange swaps, and the collection of fixed-term deposits. Standing facilities are designed to provide or absorb overnight liquidity and the imposition of minimum reserve requirements allows the ESCB to stabilize money market interest rates, create (or enlarge) a structural liquidity shortage and possibly contribute to the control of monetary expansion. The ESCB has employed a variety of policy instruments in response to the global economic and financial crisis and the European sovereign debt crisis. For further information, see "—Financial System—European Financial System—Recent Policy Responses to the Global Financial and Economic Crisis."

Source: European Central Bank, Implementation of Monetary Policy in the Euro Area, September 2006, pages 7-9 (http://www.ecb.int/pub/pdf/other/gendoc2006en.pdf).

Monetary Policy Strategy and Prices

The ECB's primary goal is to maintain medium-term price stability, which is defined as a year-on-year increase in the harmonized index of consumer prices for the euro area of less than 2%. However, the ECB has clarified that, within this definition, it aims at an inflation rate close to 2%. This goal indicates the commitment to provide an adequate margin to avoid the risk of deflation. The stability-oriented monetary policy strategy of the Eurosystem used by the ECB to achieve this goal is based on two pillars: (1) analysis and assessment of short- to medium-term risks to price stability (economic analysis); and (2) assessment of medium- to long-term monetary developments (monetary analysis).

Sources: European Central Bank, Monthly Bulletin, January 1999, pages 45-50 (http://www.ecb.eu/pub/pdf/mobu/mb199901en.pdf); European Central Bank, The Monetary Policy of the ECB, 2004, page 50ff. (http://www.ecb.int/pub/pdf/other/monetarypolicy2004en.pdf).

The following table shows price trends in Germany for the periods indicated.

PRICE TRENDS

	2014	2013	2012	2011	2010
	(change from previous year in %)				
Harmonized index of consumer prices (HICP)	0.8	1.6	2.1	2.5	1.2
Consumer price index (CPI)	0.9	1.5	2.0	2.1	1.1
Index of producer prices of industrial products sold on the domestic market (1)	-1.0	-0.1	1.6	5.3	1.5

(1) Excluding value-added tax.

Sources: Statistisches Bundesamt, Verbraucherpreise, Harmonisierter Verbraucherpreisindex, Veränderungsraten zum Vorjahr in % (https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Preise/Verbraucherpreisindizes/Tabellen_/HarmonisierterVerbraucherpreisindex.html?cms_gtp=146602_list%253D2%2526146598_slot%253D2&https=1); Statistisches Bundesamt, Verbraucherpreisindizes, Harmonisierter Verbraucherpreisindex für Deutschland, Veränderungsraten zum Vorjahr in % (https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Preise/Verbraucherpreisindizes/Tabellen_/VerbraucherpreiseKategorien.html?cms_gtp=145114_list%253D2%2526145110_slot%253D2&https=1); Deutsche Bundesbank, Monatsbericht Februar 2015, Table XI.7.

Official Foreign Exchange Reserves

The following table shows the breakdown of the Federal Republic's official foreign exchange reserves as of the end of the years indicated.

OFFICIAL FOREIGN EXCHANGE RESERVES OF THE FEDERAL REPUBLIC (1)

	As of December 31				
	2014	2013	2012	2011	2010
	(EUR in millions)				
Gold	107,475	94,876	137,513	132,874	115,403
Foreign currency balances	30,646	28,080	28,774	29,433	27,957
Reserve position in the IMF and special drawing rights	20,624	20,798	22,344	22,296	18,740
Total	**158,745**	**143,753**	**188,630**	**184,603**	**162,100**

(1) External position of the Deutsche Bundesbank in the EMU. Assets and liabilities vis-à-vis all EMU member countries and non-EMU member countries.

Source: Deutsche Bundesbank, Monatsbericht März 2015, Table XII.8.

The Federal Republic's foreign reserve assets are managed by the Deutsche Bundesbank. The Euro Area Member States have transferred foreign reserve assets to the ECB in an aggregate amount equivalent to approximately EUR 40.6 billion, consisting of foreign currency reserves and gold. The ECB manages the foreign reserve assets transferred to it. The foreign reserve assets not transferred to the ECB continue to be held and managed by the national central banks of the Euro Area Member States. In order to ensure consistency within the single monetary and foreign exchange policies of the EMU, the ECB monitors and coordinates market transactions conducted with those assets.

Sources: European Central Bank, Annual Report 1998, page 74 (http://www.ecb.int/pub/pdf/annrep/ar1998en.pdf); European Central Bank, Annual Accounts 2014, page 19 (https://www.ecb.europa.eu/pub/pdf/annrep/ar2015annualaccounts_en.pdf).

External Positions of Banks

The following table shows the external assets and liabilities of the Deutsche Bundesbank and the banks (monetary financial institutions) of the Federal Republic as of the end of each of the years indicated.

EXTERNAL FINANCIAL ASSETS AND LIABILITIES BY SECTOR

	2014	2013	2012	2011	2010
	(EUR in billions)				
Deutsche Bundesbank					
Assets	678.8	721.7	921.0	714.7	524.7
Liabilities	20.3	57.2	106.5	46.6	14.6
Net position	658.5	664.5	814.5	668.1	510.1
of which: within Eurosystem (1)	*473.2*	*523.1*	*668.6*	*475.9*	*337.9*
Banks					
Loans to foreign banks	1,125.3	1,019.7	1,046.0	1,117.6	1,154.1
Loans to foreign non-banks	735.1	701.0	729.0	744.4	773.8
Loans from foreign banks	609.2	515.7	691.1	655.7	741.7
Loans from foreign non-banks	221.0	257.8	237.6	225.9	227.6

(1) Consists mainly of claims from the interbank payment system for the real-time processing of cross-border transfers throughout the EMU (TARGET2).

Source: Deutsche Bundesbank, Monatsbericht März 2015, Tables IV.4 and XII.8.

Foreign Exchange Rates and Controls

The euro is a freely convertible currency. Since its introduction in 1999, the euro has become the second most widely used currency internationally. Currency transactions do not require licenses or other permissions. Capital market transactions are not subject to any license or similar requirements. Gold may be imported and exported freely, subject only to the levy of value added tax ("VAT") on some transactions.

Capital controls introduced in Cyprus in the second half of March 2013 to facilitate the restructuring of its banking sector are a transitory exception to this rule. In exiting capital restrictions, Cyprus is sticking to a roadmap outlined in its economic adjustment program. At the end of May 2014, the Cypriot authorities removed all remaining administrative restrictions on domestic financial transactions related to the free opening of current accounts. Other restrictions were in place longer, but Cypriot authorities continued gradual implementation of the fourth stage of the roadmap, i.e., the liberalization of external payments. Cyprus lifted the last remaining capital controls on April 6, 2015. Free circulation of capital has thus now been restored.

Sources: Central Bank of Cyprus, The Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013, press release of March 28, 2013 (http://www.centralbank.gov.cy/nqcontent.cfm?a_id=12588); European Commission, The Economic Adjustment Programme for Cyrus, Fifth Review, December 2014, page 23 (http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp209_en.pdf); Central Bank of Cyprus, The Enforcement of Temporary Restrictive Measures on Transactions in case of Emergency Thirty Fourth Decree of 2015, February 13, 2015 (http://www.centralbank.gov.cy/media//pdf/Decree_34_eng.pdf); European Council, Remarks by Jeroen Dijsselbloem at the press conference following the Eurogroup meeting of 24 April 2015 (http://www.consilium.europa.eu/en/press/press-releases/2015/04/24-eurogroup-dijsselbloem-remarks/).

The following table shows the annual average exchange rates for selected currencies in relation to the euro for the years indicated.

ANNUAL AVERAGE EXCHANGE RATES OF THE EURO (1)

	2014	2013	2012	2011	2010
U.S. dollars per euro	1.3285	1.3281	1.2848	1.3920	1.3257
Pound sterling per euro	0.80612	0.84926	0.81087	0.86788	0.85784
Japanese yen per euro	140.31	129.66	102.49	110.96	116.24
Swiss franc per euro	1.2146	1.2311	1.2053	1.2326	1.3803
Chinese yuan per euro	8.1857	8.1646	8.1052	8.9960	8.9712

(1) Calculated from daily values.

Source: Deutsche Bundesbank, Monatsbericht Februar 2015, Table XII.10.

Financial System

German Financial System

Overview. As of January 31, 2015, 1,805 monetary financial institutions in Germany reported an aggregate balance sheet total of EUR 8,176.5 billion to the Deutsche Bundesbank. According to the Deutsche Bundesbank's classification, these institutions included:

- 274 commercial banks, with an aggregate balance sheet total of EUR 3,282.9 billion;
- 416 savings banks, with an aggregate balance sheet total of EUR 1,120.2 billion;
- the ten regional institutions of those savings banks, including Deka-Bank Deutsche Girozentrale (the central asset managing institution of the German savings banks) and nine *Landesbanken* (German public law financial institutions traditionally focusing on the banking business for and in the *Land* in which they operate), with an aggregate balance sheet total of EUR 1,086.4 billion;
- 19 special-purpose credit institutions, including KfW, KfW IPEX-Bank and promotional banks of the federal states (*Landesförderinstitute*), with an aggregate balance sheet total of EUR 991.0 billion;
- 1,047 credit cooperatives, with an aggregate balance sheet total of EUR 784.1 billion;
- the two central institutions of those credit cooperatives, with an aggregate balance sheet total of EUR 298.0 billion;
- 17 mortgage banks, with an aggregate balance sheet total of EUR 401.2 billion;
- 21 building and loan associations, with an aggregate balance sheet total of EUR 212.9 billion; and
- 144 subsidiaries and branches of foreign banks located in the Federal Republic, with an aggregate balance sheet total of EUR 936.4 billion.

Source: Deutsche Bundesbank, Monatsbericht März 2015, Table IV.2 (http://www.bundesbank.de/Redaktion/DE/Downloads/Veroeffentlichungen/Monatsberichte/2015/2015_03_monatsbericht.pdf?__blob=publicationFile).

The German Banking Act (*Kreditwesengesetz*, or "KWG") currently regulates all banks except for the Deutsche Bundesbank and KfW (although it does regulate KfW IPEX-Bank). Many important provisions of the KWG will apply by analogy to KfW with effect from January 1, 2016. For more information on the application of the KWG to KfW, see "KfW—General—Supervision and Regulation—Regulation." German commercial banking institutions operate as "universal" banks and are not restricted by law or otherwise from offering a complete range of diverse financial services.

Supervision. The Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or "BaFin") is responsible for the integrated supervision of financial services. Its primary objective is to ensure the proper functioning, stability and integrity of the German financial system. The BaFin operates exclusively in the public interest. It seeks to ensure the ability of banks, financial services institutions and insurance companies to meet their payment obligations (solvency supervision), and it also enforces standards of professional conduct aimed at preserving investors' trust in the financial markets (market supervision). In addition, the BaFin has an investor protection role in that it seeks to prevent unauthorized financial business from being carried out. The Deutsche Bundesbank is closely involved in the ongoing supervision of credit institutions by the BaFin and has been assigned a substantial number of the ongoing operational tasks in banking supervision. The BaFin is supervised by the Federal Ministry of Finance.

In early 2013, key components of the Act on the Strengthening of German Financial Supervision (*Gesetz zur Stärkung der deutschen Finanzaufsicht*) entered into force. Among other measures, this Act provides the legal basis for the creation of the Financial Stability Commission, consisting of representatives of the Federal Ministry of Finance, the Deutsche Bundesbank and BaFin. Due to the Deutsche Bundesbank's macroeconomic and financial market expertise, the act confers upon it the responsibility of contributing towards safeguarding financial stability. The Deutsche Bundesbank is tasked with analyzing all relevant factors in order to identify threats to financial stability. Warnings or recommendations for corrective measures are submitted to the Financial Stability Commission. Resolutions regarding such warnings and recommendations are passed by the members of the Financial Stability Commission at their quarterly meetings. In addition, the Financial Stability Commission is tasked with defining concerted reactions to emerging threats to financial stability by issuing warnings and recommendations and publishing them if appropriate. The recipients of such warnings or recommendations are obliged to report on the implementation of corrective measures. The Financial Stability Commission was formally established at its inaugural meeting on March 18, 2013. As regards cooperation between BaFin and the Deutsche Bundesbank, the act requires these two authorities to keep each other informed of any observations, findings and assessments that BaFin and the Deutsche Bundesbank require to perform their functions. In addition, the Deutsche Bundesbank was granted the authority to request information from financial corporations if the information required to perform its functions cannot be obtained from BaFin or other authorities.

Sources: Bundesministerium der Justiz, Gesetz über das Kreditwesen (http://www.gesetze-im-internet.de/kredwg/index.html); Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin, Functions & history (http://www.bafin.de/EN/BaFin/FunctionsHistory/functionshistory_node.html); Deutsche Bundesbank and Bundesanstalt für Finanzdienstleistungsaufsicht, Joint press release of November 4, 2002 (http://www.bundesbank.de/Redaktion/EN/Downloads/Press/Pressenotizen/2002/2002_11_04_banking_supervision.pdf?__blob=publicationFile); Bundesanstalt für Finanzdienstleistungsaufsicht, Aufsichtsrichtlinie—Richtlinie zur Durchführung und Qualitätssicherung der laufenden Überwachung der Kredit- und Finanzdienstleistungsinstitute durch die Deutsche Bundesbank (AufsichtsRL), May 21, 2013 (http://www.bafin.de/SharedDocs/Aufsichtsrecht/DE/Richtlinie/rl_130521_aufsichtsrichtlinie.html?nn=2696382); BaFin, Act on the Strengthening of German Financial Supervision, BaFin Quarterly of January 18, 2013 (http://www.bafin.de/SharedDocs/Downloads/EN/Mitteilungsblatt/Quarterly/bq1204.pdf?__blob=publicationFile); Bundesbank, German macroprudential oversight strengthened, press release of March 18, 2013 (http://www.bundesbank.de/Redaktion/EN/Pressemitteilungen/BBK/2013/2013_03_18_macropudential_oversight.html).

Bank Recovery and Resolution. The German Restructuring Act (*Restrukturierungsgesetz*), enacted in December 2010, established new regulations for the restructuring and liquidation of banks. It provides for the establishment of a restructuring fund (*Restrukturierungsfonds*) which is financed by contributions (*Bankenabgabe*) of institutions falling within the scope of the German Restructuring Fund Act (*Restrukturierungsfondsgesetz*). The restructuring fund is managed by the German Federal Agency for Financial Market Stabilization (*Bundesanstalt für Finanzmarktstabilisierung*, "FMSA"). Details of the implementation of the *Bankenabgabe* have been formalized in a restructuring fund regulation (*Restrukturierungsfonds-Verordnung*). The first payments were made in 2011.

With effect as of 2015, the *Bankenabgabe* was replaced by a new bank levy that meets European requirements under the European bank recovery and resolution directive ("BRRD"). Companies defined in article 2 paragraph 5 of the Capital Requirements Directive IV ("CRD IV")—including KfW—are not required to contribute to the fund. The bank levy is accumulated in the *Restrukturierungsfonds* and may be used for resolution measures. The law implementing the BRRD in Germany (*BRRD-Umsetzungsgesetz*) furthermore introduced the law ratifying the intergovernmental agreement of May 21, 2014, which regulates the transfer of national bank levies to the EU's single resolution fund ("SRF") and the mutualization of these contributions.

The *BRRD-Umsetzungsgesetz* was adopted in 2014 and, to a large extent, came into effect as of January 1, 2015. This implementation act consolidates existing rules and implements the requirements of the BRRD. To this end, the Restructuring and Resolution Act (*Sanierungs- und Abwicklungsgesetz*) was introduced. In addition to the intervention and resolution instruments that already existed under German national law, the resolution authority now has the direct power to bail in a bank's shareholders and creditors in the event of resolution.

The regulations on the resolution of banks are planned to be further amended in the course of 2015 in order to meet the upcoming requirements of the Single Resolution Mechanism ("SRM"), effective as of January 1, 2016, and European Level II standards concerning the bank levy, which entered into force on January 1, 2015.

For more information on the SRF, see "—European Financial System—European System of Financial Supervision and European Banking Union".

Sources: Bundesministerium der Finanzen, Systemische Risiken im Finanzsektor wirksam begrenzen—Bundesregierung beschließt Restrukturierungsgesetz, press release of August 25, 2010 (http://www.bundesfinanzministerium.de/Content/DE/Pressemitteilungen/Finanzpolitik/2010/08/2010-08-25-PM32.html); Bundesministerium der Finanzen, Wirtschaft und Verwaltung, Was macht die Bundesanstalt für Finanzmarktstabilisierung? Neue Aufgaben der FMSA zur Stabilisierung des Finanzsektors, September 20, 2010 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Internationales_Finanzmarkt/Finanzmarktpolitik/Bankenabgabe/2010-09-17-FMSA.html); Bundestagsdrucksache 17/3407 (http://dip21.bundestag.de/dip21/btd/17/034/1703407.pdf); Bundesministerium der Finanzen, German government moves forward with package of measures for European banking union, press release of July 9, 2014 (http://www.bundesfinanzministerium.de/Content/EN/Pressemitteilungen/2014/2014-07-09-package-of-measures-for-european-banking-union.html); Bundesministerium der Finanzen, Verordnung zur Änderung der Verordnung über die Erhebung der Beiträge zum Restrukturierungsfonds für Kreditinstitute (Restrukturierungsfonds-Verordnung - RStruktFV), Bundesfinanzministerium veröffentlicht Referentenentwurf zur Änderung der Restrukturierungsfonds-Verordnung, press release of March 5, 2015 (http://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Referentenentwuerfe/2015-03-05-restrukturierungsfonds-vo.html).

Since January 1, 2015, the FMSA acts as national resolution authority. Resolution powers are pooled under the FMSA, although the BaFin and the ECB retain their supervisory right to make decisions about bank closures. In the medium term, the resolution authority will be integrated into BaFin. To bridge the transitional period until the European banking union is fully implemented and to fulfill the Federal Republic's responsibility to have a national backstop arrangement in place in the event of a crisis, as agreed by the European finance ministers in November 2013, the application deadline for new measures to be granted by the German Financial Market Stabilization Fund ("SoFFin") has once again been extended to the end of 2015. SoFFin, which was established in 2008 in the wake of the global financial crisis, is tasked with stabilizing the German banks by extending guarantees up to a total amount of EUR 400 billion with respect to banks' securities and by incurring loans in a total amount of up to EUR 80 billion. Its mandate, which was originally limited until December 31, 2010, has been repeatedly extended. As of December 31, 2014, the outstanding stabilization measures provided by SoFFin amounted to EUR 16.8 billion in capital injections, while loss compensation payments made to FMS Wertmanagement totaled EUR 9.3 billion.

Sources: Die Beschlüsse des Bundestages am 26. und 27. Januar, publication of January 27, 2012 (http://www.bundestag.de/dokumente/textarchiv/2012/37536609_kw04_angenommen_abgelehnt/index.html); Bundestag, Drittes Gesetz zur Umsetzung eines Maßnahmenpakets zur Stabilisierung des Finanzmarktes, Dokumentations- und Informationssystem für parlamentarische Vorgänge (http://dipbt.bundestag.de/extrakt/ba/WP17/483/48345.html); FMSA Bundesanstalt für Finanzmarktstabilisierung, Historischer Überblick über die Maßnahmen des SoFFin (http://www.fmsa.de/export/sites/standard/downloads/20141231_Historischer_Ueberblick.pdf); FMSA Bundesanstalt für Finanzmarktstabilisierung, FMSA nimmt Arbeit als Nationale Abwicklungsbehörde auf, press release of January 2015 (http://www.fmsa.de/de/presse/pressemitteilungen/2015/20150102_pressemitteilung_fmsa.html); FMSA Bundesanstalt für Finanzmarktstabilisierung, Hintergrund FMSA (http://www.fmsa.de/de/presse/hintergrund-fmsa); Bundesministerium der Finanzen, German government moves forward with package of measures for European banking union, press release of July 9, 2014 (http://www.bundesfinanzministerium.de/Content/EN/Pressemitteilungen/2014/2014-07-09-package-of-measures-for-european-banking-union.html).

On June 7, 2013, the *Bundesrat* approved the Act on Ringfencing and Recovery and Resolution Planning for Credit Institutions and Financial Groups (*Gesetz zur Abschirmung von Risiken und zur Planung der Sanierung und Abwicklung von Kreditinstituten und Finanzgruppen*). The act has three main components. First, the act requires all credit institutions posing a potential systemic risk (as assessed jointly by BaFin and the Deutsche Bundesbank) to compile and annually update a recovery and resolution plan. Second, the act prohibits certain high-risk activities with effect from July 1, 2015, and empowers BaFin, from July 1, 2016 onwards, to prohibit additional high-risk activities of specific institutions. Groups may avoid sanctions by ringfencing and transferring such activities to a separate financial trading institution, either within or outside of the group. This provision of the act applies to large credit institutions (trading portfolio and liquidity reserve either exceed EUR 100 billion, or exceed 20% of total assets and amount to at least EUR 90 billion) that accept deposits and other repayable funds and grant loans for their own account. The prohibition does not apply to hedging activities performed to hedge transactions with clients, to manage interest rates, currencies or liquidity or to buy or sell long-term equity investments. Third, the act establishes risk management duties for senior managers of financial institutions and provides for criminal liability for breaches of those duties.

Source: Bundesanstalt für Finanzdienstleistungsaufsicht, Crisis management: Act on Ringfencing and Recovery and Resolution Planning for Credit Institutions passed, press release of July 15, 2013 (http://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2013/fa_bj_2013_07_trennbankengesetz_en.html).

Wind-up Institutions. In the wake of the global financial crisis, two wind-up institutions (*Abwicklungsanstalten*) for troubled German banks were established within the framework set out by the German Financial Market Stabilization Fund Act (*Finanzmarktstabilisierungsfondsgesetz*), which was introduced in April 2009. The first wind-up institution, Erste Abwicklungsanstalt, was established in December 2009 to liquidate a portfolio of EUR 77.5 billion assumed from WestLB. It assumed a second portfolio consisting of an asset portfolio worth EUR 72.3 billion and a trading portfolio with a market value of around EUR 52.1 billion following the restructuring of WestLB. As of December 30, 2014, the combined asset portfolios had been reduced to approximately EUR 86 billion.

Sources: Erste Abwicklungsanstalt, Geschäftsbericht 2009/2010 (https://www.aa1.de/fileadmin/content/downloads/Geschaeftsbericht_2009-2010.pdf); Landtag NRW, Sitzungsprotokoll 15. Sitzung des Haushalts- und Finanzausschuss, from January 31, 2013 (http://www.landtag.nrw.de/portal/WWW/dokumentenarchiv/Dokument/MMA16-151.pdf); Erste Abwicklungsanstalt, Pressemitteilung zum Geschäftsbericht 2014; press release of April 16, 2015 (https://www.aa1.de/fileadmin/content/downloads/1_Presse/PM-GB-2014_20150415_final.pdf).

The second wind-up institution, FMS Wertmanagement, assumed a portfolio of EUR 175.7 billion from Hypo Real Estate Group in October 2010 to support restructuring efforts. In December 2014, FMS Wertmanagement acquired DEPFA Bank plc, which, as of December 31, 2013, had consolidated total assets amounting to EUR 49.1 billion, from Hypo Real Estate Holding AG. DEPFA will have to be wound down in accordance with an EU state aid decision of July 18, 2011. As of December 31, 2014, FMS Wertmanagement's portfolio had been reduced to EUR 106.3 billion.

Sources: FMS Wertmanagement AöR, Annual Report 2014 (http://www.fms-wm.de/en/downloadcenter/doc_download/93-fms-wertmanagement-aoer-annual-report-2014); FMS Wertmanagement AöR, FMS Wertmanagement generates considerably higher profit in 2014, press release of April 21, 2015 (http://www.fms-wm.de/en/press/480-fms-wertmanagement-generates-considerably-higher-profit-in-2014); Bundesanstalt für Finanzmarktstabilisierung, Gemeinsame Pressemitteilung von FMSA und HRE, press release of May 13, 2014 (http://www.fmsa.de/de/presse/pressemitteilungen/2014/20140513_pressemitteilung_fmsa.html); FMS Wertmanagement, Joint Press Release of FMS-WM and HRE: FMS Wertmanagement closes acquisition of DEPFA Bank plc from HRE, press release of December 19, 2014 (http://www.fms-wm.de/en/press/448-joint-press-release-of-fms-wm-and-hre-fms-wertmanagement-closes-acquisition-of-depfa-bank-plc-from-hre); European Commission, Commission Decision of 18 July 2011 on State Aid C 15/2009 (ex N 196/2009), which Germany implemented and is planning to implement for Hypo Real Estate (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32012D0118&qid=1427405202655&from=EN).

European Financial System

European System of Financial Supervision and European Banking Union. The European system of financial supervisors became operational on January 1, 2011. At the macro-financial level, a European Systemic Risk Board (the "ESRB") was established, which provides macro-prudential oversight of the financial system. The ESRB's role is to monitor and assess potential risks to the stability of the financial system. If necessary, it will issue risk warnings and recommendations for remedial action and will monitor their implementation. The ESRB is chaired by the President of the ECB for an initial term of five years.

At the micro-financial level, three supervisory authorities were established:

- the European Banking Authority, or "EBA;"
- the European Insurance and Occupational Pensions Authority; and
- the European Securities and Markets Authority.

The three European Supervisory Authorities (the "ESAs") cooperate with the supervisory authorities of the Member States. National authorities are responsible for the day-to-day supervision of individual financial institutions, whereas the ESAs are responsible for ensuring that a single set of harmonized rules and consistent supervisory practices are applied by supervisory authorities of the Member States. The ESAs have, for example, the power to settle disputes among national financial supervisors by imposing legally binding mediation and to impose temporary bans on risky financial products or activities.

Source: European Commission, Financial Supervision (http://ec.europa.eu/internal_market/finances/committees/index_en.htm).

One of the key elements of Europe's banking union, which was established in the wake of the European sovereign debt crisis, is the Single Supervisory Mechanism ("SSM") composed of the ECB and the national supervisory authorities of participating Member States. The SSM's main aims are to contribute to the safety and soundness of credit institutions and the stability of the European financial system and to ensure consistent supervision. The SSM became operational on November 4, 2014, when the ECB assumed full responsibility for the supervision of euro area banks. In its role within the SSM, the ECB directly supervises 120 significant banking groups, which represent 82% (by assets) of the euro area banking sector. For all other 3,500 banks, the ECB is responsible for setting and monitoring the supervisory standards and for working closely with the national competent authorities in the supervision of these banks.

In preparation for its assumption of bank supervisory tasks, the ECB undertook a twelve-month comprehensive assessment of the 130 largest banks in the euro area in cooperation with national supervisory authorities of Member States participating in the SSM. The 25 German institutions covered by the assessment included some German promotional banks (but not KfW) as well as KfW IPEX-Bank. The results of this assessment, which consisted of an asset quality review ("AQR") and a stress test, were published on October 26, 2014. As of December 31, 2013, the comprehensive assessment found an aggregate capital shortfall of EUR 25 billion among 25 banks. Twelve banks had already covered their shortfall by raising an aggregate EUR 15 billion in 2014. The ECB gave the remaining thirteen banks up to nine months to cover the capital shortfall. The AQR, which examined whether assets were properly valued on banks' balance sheets as of December 31, 2013, also found that the carrying values of banks' assets needed to be adjusted by EUR 48 billion.

Sources: European Central Bank, ECB assumes responsibility for euro area banking supervision, press release of November 4, 2014 (http://www.ecb.europa.eu/press/pr/date/2014/html/pr141104.en.html); European Central Bank, ECB's in-depth review shows banks need to take further action, press release of October 26, 2014 (http://www.ecb.europa.eu/press/pr/date/2014/html/pr141026.en.html); European Central Bank, Aggregate report on the comprehensive assessment, October 2014 (http://www.ecb.europa.eu/pub/pdf/other/aggregatereportonthecomprehensiveassessment201410.en.pdf).

Another key element of Europe's banking union is the SRM with the purpose of ensuring the orderly resolution of failing banks. The SRM consists of a single resolution board (the "SRB"), which will have broad powers in cases of bank resolution, and a single resolution fund (the SRF), which will be built up over a period of eight years to reach a target level of at least 1% of the amount of covered deposits of all credit institutions authorized in all the participating Member States. Banks will have to make annual contributions to the SRF calculated on the basis of their liabilities, excluding own funds and covered deposits, and adjusted for risk. The SRB will be responsible for the planning and resolution phases of cross-border banks and those directly supervised by the ECB, while national resolution authorities will be responsible for all other banks as of January 1, 2015, under the bank recovery and resolution directive (the "BRRD"). However, the SRB will always be responsible if the resolution of a bank requires access to the SRF. The SRM was established by a regulation adopted in July 2014 and will become fully operational starting January 1, 2016.

Sources: Council of the European Union, Council adopts rules setting up single resolution mechanism, press release of July 14, 2014 (http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2011814%202014%20INIT); Council of the European Union, Single Resolution Fund: Council agrees on bank contributions, press release of December 9, 2014 (https://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/146129.pdf).

In response to the global economic and financial crisis, regulatory authorities and central banks launched a comprehensive regulatory reform program. As a result, in December 2010, the Basel Committee on Banking Supervision launched a package of new standards on bank capital adequacy and liquidity to enhance the banking regulatory framework. The capital and liquidity reform package, typically referred to as Basel III, will be phased in by 2019. In March 2013, the Council approved a compromise text transposing the Basel III agreement into EU law. The compromise text amends and replaces existing capital requirement directives by two new legislative instruments: a regulation establishing prudential requirements for institutions and a directive governing access to deposit-taking activities. Following the approval by the European Parliament in April 2013, the Council adopted the Capital Requirements Regulation (CRR) and CRD IV on June 20, 2013. On January 1, 2014, the new rules entered into force.

Sources: Council of the European Union, Bank capital rules: Council confirms agreement with EP, press release of March 27, 2013 (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/136581.pdf); Parliament votes reform package to strengthen EU banks, press release of April 16, 2013 (http://www.europarl.europa.eu/news/en/pressroom/content/20130416IPR07333/html/Parliament-votes-reform-package-to-strengthen-EU-banks); European Council, Council adopts new bank capital requirements, June 20, 2013 (http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/137544.pdf); Official Journal of the European Union, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, June 27, 2013 (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0001:0337:EN:PDF); Official Journal of the European Union, Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, June 27, 2013 (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0036&from=EN).

Recent Policy Responses to the Global Financial and Economic Crisis. In response to the tensions in the financial markets and the loss of confidence in the financial sector overall in the wake of the global financial and economic crisis, a number of measures were taken at the EU level in recent years to restore confidence in the financial sector and prevent market disruptions. These measures were, or continue to be, mainly directed at preserving adequate capitalization of financial institutions, at enhancing credit support measures to improve bank lending and liquidity in the euro area money market, at safeguarding the flow of credit from financial institutions to the real economy and, most recently, at addressing the risk of a prolonged period of low inflation. A central role was, and continues to be, played by the ECB, which, among other measures, engaged in asset purchase programs, conducted long-term refinancing operations and increased collateral availability.

In mid-September 2011, the ECB, in coordination with the U.S. Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, agreed to conduct U.S. dollar liquidity operations with a maturity of approximately three months. These operations were conducted in addition to ongoing weekly seven-day U.S. dollar liquidity operations which were announced in May 2010. According to a press release of the ECB published in January 2014, the ECB ceased conducting the three-month U.S. dollar liquidity operations in April 2014. The weekly U.S. dollar liquidity operations will continue to be conducted until further notice. In November 2011, the Bank of Canada, the Bank of England, the Bank of Japan, the ECB, the U.S. Federal Reserve and the Swiss National Bank announced coordinated actions to enhance their capacity to provide liquidity support to the global financial system. As a contingency measure, the central banks also established bilateral liquidity swap arrangements so that liquidity can be provided in each jurisdiction in any of their currencies, if required by market conditions. These swap lines will remain in place until further notice.

Sources: European Central Bank, ECB announces additional US dollar liquidity-providing operations over year-end, press release of September 15, 2011 (http://www.ecb.int/press/pr/date/2011/html/pr110915.en.html); European Central Bank, ECB announces US dollar liquidity-providing operations as of 1 February 2014, press release of January 24, 2014 (http://www.ecb.europa.eu/press/pr/date/2014/html/pr140124.en.html); European Central Bank, ECB extends US dollar liquidity-providing operations beyond 31 July 2014, press release of June 17, 2014 (https://www.ecb.europa.eu/press/pr/date/2014/html/pr140617.en.html); European Central Bank, Coordinated central bank action to address pressures in global money markets, press release of November 30, 2011 (http://www.ecb.int/press/pr/date/2011/html/pr111130.en.html); European Central Bank, ECB extends the existing swap arrangements with other central banks, press release of December 13, 2012 (http://www.ecb.int/press/pr/date/2012/html/pr121213.en.html); European Central Bank, ECB establishes standing swap arrangements with other central banks, press release of October 31, 2013 (http://www.ecb.europa.eu/press/pr/date/2013/html/pr131031.en.html).

In August 2012, the ECB announced that it may undertake outright open market operations of a size adequate to address the severe malfunctioning in the price formation process in the bond markets of Euro Area Member States. In this context, the concerns of private investors about seniority would be addressed. In addition, it was announced that the Governing Council may consider undertaking further non-standard monetary policy measures depending on what will be required to repair monetary policy transmission and will design appropriate modalities for these policy measures. In September 2012, the

ECB detailed the modalities for undertaking Outright Monetary Transactions (“OMTs”) in secondary markets for sovereign bonds in the euro area. Within its mandate to maintain price stability over the medium term and in observance of its independence in determining monetary policy, the ECB intends to preserve the singleness of its monetary policy and to ensure the proper transmission of its policy stance to the real economy throughout the euro area. OMTs are aimed at enabling the ECB to address severe distortions in government bond markets. The OMTs replace the ECB’s Securities Markets Programme, which was reactivated in early August 2011 in order to address renewed tensions in some financial markets in the euro area by intervening actively in the euro area public and private debt securities markets. This program was first introduced in early May 2010 with a view to ensuring depth and liquidity in certain dysfunctional market segments. The liquidity injected through the Securities Markets Programme will continue to be absorbed as in the past, and the existing securities in the Securities Markets Programme portfolio will be held to maturity. The OMT program was legally challenged by the German Federal Constitutional Court (*Bundesverfassungsgericht)* and has been referred to the EU Court of Justice for a preliminary ruling. On January 14, 2015, the advocate general of the EU Court of Justice proposed that the court consider the OMT programme as compatible with Article 123(1) of the Treaty on the Functioning of the European Union, provided that some specified conditions are fulfilled.

Sources: Introductory statement to the press conference (with Q&A), Mario Draghi, President of the ECB, Vítor Constâncio, Vice-President of the ECB, August 2, 2012 (http://www.ecb.int/press/pressconf/2012/html/is120802.en.html); Introductory statement to the press conference (with Q&A), Mario Draghi, President of the ECB, Vítor Constâncio, Vice-President of the ECB, September 6, 2012 (http://www.ecb.int/press/pressconf/2012/html/is120906.en.html); European Central Bank, Decisions taken by the Governing Council of the ECB (in addition to decisions setting interest rates), press release of August 4, 2011 (http://www.ecb.int/press/govcdec/otherdec/2011/html/gc110805.en.html); European Central Bank, Statement by the President of the ECB, press release of August 7, 2011 (http://www.ecb.int/press/pr/date/2011/html/pr110807.en.html); European Central Bank, ECB decides on measures to address severe tensions in financial markets, press release of May 10, 2010 (http://www.ecb.int/press/pr/date/2010/html/pr100510.en.html); European Central Bank, Technical features of Outright Monetary Transactions, press release of September 6, 2012 (http://www.ecb.int/press/pr/date/2012/html/pr120906_1.en.html); Bundesverfassungsgericht, Principal Proceedings ESM/ECB: Pronouncement of the Judgment and Referral for a Preliminary Ruling to the Court of Justice of the European Union, press release no. 9/2014 of February 7, 2014 (http://www.bundesverfassungsgericht.de/pressemitteilungen/bvg14-009en.html; EU Court of Justice, Opinion of advocate general Cruz Villalon, press release of January 14, 2015 (http://curia.europa.eu/juris/document/document.jsf;jsessionid=9ea7d0f130dee31057b819824364b34f85442fa4ee1a.e34KaxiLc3eQc40LaxqMbN4Obx0Pe0?text=&docid=161370&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=277208).

On June 5, 2014, the ECB announced several measures designed to enhance the functioning of the monetary policy transmission mechanism by supporting lending to the real economy. In particular, the ECB decided to conduct a series of targeted longer-term refinancing operations (“TLTROs”). These TLTROs are aimed at improving bank lending to the euro area non-financial private sector (defined as euro area households and non-financial corporations), excluding loans to households for house purchase, for a period of two years.

On September 4, 2014, the Governing Council of the ECB decided to start purchasing non-financial private sector assets. The Eurosystem will purchase a broad portfolio of simple and transparent asset-backed securities (“ABS”) with underlying assets consisting of claims against the euro area non-financial private sector under an ABS purchase program. In parallel, the Eurosystem will also purchase a broad portfolio of euro-denominated covered bonds issued by multilateral financial institutions domiciled in the euro area under a new covered bond purchase program.

On January 22, 2015, the ECB announced an expanded asset purchase program under which the ECB will add the purchase of sovereign bonds to its existing private sector asset purchase programs in order to address the risks of a prolonged period of low inflation. The ECB will buy bonds issued by euro area central governments, agencies and European institutions in the secondary market against central bank money. Monthly purchases under the program are intended to amount to EUR 60 billion. The ECB has announced it intends to carry out these purchases until at least September 2016 and, in any case, until the ECB sees a sustained adjustment in the path of inflation that is consistent with its aim of achieving inflation rates below, but close to 2% over the medium term. The ECB began purchasing sovereign bonds on March 9, 2015.

Sources: European Central Bank, ECB announces monetary policy measures to enhance the functioning of the monetary policy transmission mechanism, press release of June 5, 2014 (http://www.ecb.europa.eu/press/pr/date/2014/html/pr140605_2.en.html); European Central Bank, Introductory statement to the press conference (with Q&A), press release of September 4, 2014 (https://www.ecb.europa.eu/press/pressconf/2014/html/is140904.en.html); European Central Bank, ECB announces expanded asset purchase programme, press release of January 22, 2015 (https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html); European Central Bank, Asset purchase programmes, Active asset purchase programmes, Public sector purchase programme (https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html).

Securities Market

The Federal Republic’s securities market is among Europe’s largest. Trading in listed securities is not legally or otherwise confined to the stock exchanges. It is estimated, however, that most transactions in equity securities are executed through stock exchanges. By contrast, debt securities, although typically listed, are predominantly traded over-the-counter.

Highly developed secondary markets, combined with the distribution capabilities of an extensive network of financial institutions, provide the basis for the Federal Republic’s position in the world’s capital markets. Equity and debt issues are generally underwritten and distributed through banking syndicates, which typically include commercial banks as well as certain regional and specialized institutions. The regulated securities markets in Berlin, Dusseldorf, Frankfurt am Main, Hamburg, Hanover, Munich and Stuttgart, the futures and options exchange Eurex Deutschland and the European Energy Exchange are recognized as regulated markets of the EU according to Article 47 of Directive 2004/39/EC on Markets in Financial Instruments and comply with globally accepted regulatory standards.

Based on total turnover on German securities exchanges, the Frankfurt Stock Exchange, operated by Deutsche Börse AG, is by far the most important stock exchange in the Federal Republic.

In January 2013, the Heads of State or Government of the European Union adopted a decision authorizing eleven Member States to proceed with the introduction of a financial transaction tax ("FTT") through "enhanced cooperation." The eleven countries are Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain. In September and October 2012, the eleven Member States wrote to the European Commission requesting a proposal for enhanced cooperation, specifying that the scope and objective of the FTT be based on that of the 2011 proposal.

In February 2013, the European Commission presented its "Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax." The proposal involves a harmonized minimum 0.1% tax rate for transactions in all types of financial instruments except derivatives (0.01% rate). On May 6, 2014, the Federal Republic and nine other Member States issued a joint statement on the financial transaction tax stating that the tax should be implemented progressively. On January 27, 2015, the Federal Republic and nine other Member States issued a joint statement confirming their willingness to create the conditions necessary to implement the European financial transaction tax on January 1, 2016.

Sources: Council of the European Union, Financial transaction tax: Council agrees to enhanced cooperation, press release of January 22, 2013 (http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ecofin/134949.pdf); Bundesministerium der Finanzen, Finanztransaktionsteuer in verstärkter Zusammenarbeit, press release of January 27, 2015 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Weitere_Steuerthemen/Finanztransaktionsteuer/2014-01-27-ftt-statement.html).

PUBLIC FINANCE

Receipts and Expenditures

The Federal Government, each of the *Länder* governments and each of the municipalities (*Gemeinden*) have separate budgets. The federal budget is the largest single public budget.

The fiscal year of the Federal Republic is the calendar year. The annual federal budget is passed by an act of parliament. On the basis of a proposal prepared by the Ministry of Finance, the Federal Government introduces the federal budget bill to the parliament, generally in the summer of each year. The proposal has to pass through three *Bundestag* sessions, the budget committee of the *Bundestag,* and the *Bundesrat*, which deliberates the proposal twice. The final vote on the proposal is taken by the *Bundestag* in its third session.

In addition to the federal, *Länder* and municipal budgets, there are separate budgets for the social security funds and various special funds (*Sondervermögen*) of the federal administration and the *Länder*, as well as other off-budgetary entities at all levels of government that are created for specific public purposes. General government, as defined in the national accounts, comprises all these different levels of government activity.

In 2014, total consolidated general government revenue, as presented in the national accounts, amounted to EUR 1,293.8 billion, with tax revenue of EUR 660.4 billion and social contributions of EUR 481.6 billion.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.2.

In 2014, VAT and the taxes on income and wealth, as presented in the national accounts, amounted to EUR 203.1 billion and EUR 346.8 billion, respectively. These joint taxes are distributed among the Federal Government, the *Länder* governments and municipal authorities, according to predetermined formulae. In addition to joint taxes, the Federal Government, the *Länder* governments and the municipal authorities each levied special taxes, for example, on tobacco and beer.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.16.

Consolidated general government expenditure in 2014, as presented in the national accounts, amounted to a total of EUR 1,275.8 billion. The most significant consolidated general government expenditures were monetary social benefits (EUR 452.2 billion), social benefits in kind (EUR 239.4 billion) and employee compensation (EUR 223.9 billion). Other significant consolidated general government expenditures included intermediate consumption (EUR 134.9 billion), interest on public debt (EUR 50.6 billion) and gross capital formation (EUR 63.1 billion).

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.2.

GENERAL GOVERNMENT ACCOUNTS (1)

	2014	2013	2012	2011	2010
			(EUR in billions)		
Federal Government, *Länder* governments and municipalities					
Revenue	839.3	811.2	793.9	769.4	718.2
of which: Taxes (2)	*660.4*	*637.9*	*619.8*	*594.7*	*551.8*
Expenditure	824.7	813.2	809.6	808.1	826.9
Balance	**14.6**	**-1.9**	**-15.7**	**-38.7**	**-108.7**
Social security funds					
Revenue	557.3	540.1	539.2	528.7	517.2
Expenditure	553.9	534.0	520.9	513.2	513.4
Balance	**3.4**	**6.1**	**18.3**	**15.4**	**3.9**
General government					
Revenue	1,293.8	1,249.4	1,217.8	1,179.5	1,110.4
Expenditure	1,275.8	1,245.3	1,215.2	1,202.7	1,215.3
Balance	**18.0**	**4.2**	**2.6**	**-23.3**	**-104.8**

(1) Definition according to the national accounts.

(2) Excluding capital taxes and taxes of domestic sectors paid to EU.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Tables 3.4.3.2, 3.4.3.3 and 3.4.3.7.

FEDERAL GOVERNMENT ACCOUNTS (1)

	2014	2013	2012	2011	2010
			(EUR in billions)		
Revenue	383.8	369.5	364.8	357.4	330.7
of which: Taxes (2)	*336.4*	*325.8*	*318.8*	*309.3*	*286.8*
Expenditure	372.4	374.0	379.5	384.5	412.9
Balance	**11.4**	**-4.5**	**-14.7**	**-27.1**	**-82.2**

(1) Definition according to the national accounts.

(2) Excluding taxes of domestic sectors paid to EU.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.4.

GENERAL GOVERNMENT EXPENDITURE: BREAKDOWN BY FUNCTIONS (1)

	2013	2012	2011	2010	2009
			(EUR in billions)		
General public services	178.5	177.4	179.4	168.6	161.6
Defense	30.4	31.1	29.5	27.7	26.5
Public order and safety	43.7	42.4	42.0	40.8	39.9
Economic affairs	93.7	94.6	92.5	121.1	95.8
Environmental protection	15.9	15.2	15.7	15.5	17.8
Housing and community amenities	11.4	11.8	13.2	14.6	16.2
Health	196.8	187.1	182.9	179.6	174.7
Recreation, culture and religion	23.3	22.2	21.8	21.1	20.6
Education	120.8	117.0	116.5	112.6	106.1
Social protection	530.8	516.5	509.2	513.8	506.2
Total expenditure	**1,245.3**	**1,215.2**	**1,202.7**	**1,215.3**	**1,165.3**

(1) Definition according to the national accounts.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.11.

Germany's General Government Deficit/Surplus and General Government Gross Debt

For purposes of the Member States' reports to the European Commission under the EDP, the general government or "Maastricht" deficit/surplus refers to the difference between consolidated public sector revenue and consolidated public sector expenditure and is the balancing item "net borrowing/net lending" of general government (central government, state government, local government and social security funds) as defined in ESA 2010. In 2014, Germany's general government surplus amounted to EUR 19.4 billion, or 0.7% of nominal GDP according to the April 2015 EDP notification, a slight upward revision compared to the previously published national accounts data showing a surplus of EUR 18.0 billion or 0.6% of GDP, on which the 2015 update of the German stability program is based. The German general government gross debt-to-GDP ratio decreased from 77.1% in 2013 to 74.7% in 2014, which is above the EU's 60% reference value.

Sources: Statistisches Bundesamt, General government recorded surplus of 18 billion euros in 2014, press release of February 24, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/02/PE15_062_813.html); The European Union, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union (http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12012M/TXT&from=EN); Deutsche Bundesbank, German Maastricht debt level for 2014 up slightly to €2.17 trillion – debt ratio down markedly to 74.7%, press release of April 1, 2015 (http://www.bundesbank.de/Redaktion/EN/Pressemitteilungen/BBK/2015/2015_04_01_schuldenstand.html); Statistisches Bundesamt, European Union (EU) Stability Pact, Data relating to the EU excessive deficit procedure for Germany in billion Euro (https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/NationalAccounts/EUStabilityPact/Tables/DeficitGermany.html).

The following table shows historical information on the Federal Republic's general government deficit/surplus and debt as a percentage of GDP.

THE FEDERAL REPUBLIC'S FISCAL MAASTRICHT CRITERIA

	2014 (1)	2013	2012	2011	2010
			(% of GDP)		
General government deficit (-) / surplus (+)	0.7	0.1	0.1	-4.2	-3.1
General government gross debt	74.7	77.1	79.3	77.9	80.5

(1) Provisional figures, partly estimated.

Sources: Statistisches Bundesamt, General government recorded surplus of 18 billion euros in 2014, press release of February 24, 2015 (https://www.destatis.de/EN/PressServices/Press/pr/2015/02/PE15_062_813.html); Deutsche Bundesbank, German Maastricht debt level for 2014 up slightly to €2.17 trillion – debt ratio down markedly to 74.7%, press release of April 1, 2015 (http://www.bundesbank.de/Redaktion/EN/Pressemitteilungen/BBK/2015/2015_04_01_schuldenstand.html); Statistisches Bundesamt, European Union (EU) Stability Pact, Data relating to the EU excessive deficit procedure for Germany in billion Euro (https://www.destatis.de/EN/FactsFigures/NationalEconomyEnvironment/NationalAccounts/EUStabilityPact/Tables/DeficitGermany.html).

Fiscal Outlook

The April 2015 update of the German stability program forecasts a slight surplus in the general government budget in 2015. From 2016 onwards, the general government balance is forecast to be balanced or in surplus. The medium-term objective of a structural deficit not exceeding 0.5% of GDP is expected to be met with a significant safety margin during the entire forecasting period (2015 to 2019).

According to the April 2015 update of the German stability program, Germany's general government gross debt-to-GDP ratio is projected to be 71 1/2% in 2015 and to decrease further to around 61 1/2% by 2019, the end of the forecast horizon. The reference values for the upper limit of the debt ratio according to the 1/20th-rule of the enhanced SGP are expected to be undershot significantly in all years of the forecasting period. However, the debt ratio is expected to continue to be in excess of the EU's reference value of 60% of nominal GDP until 2019. One reason for the decrease is expected to be the liquidation of parts of the wind-up institutions' portfolios, which is expected to continue over the coming years. In addition to the liquidation effect, the consolidation efforts in the federal, *Länder* and municipal authorities' budgets are expected to contribute to the decline in the debt-to-GDP ratio during the forecasting period.

Source: Bundesministerium der Finanzen, Deutsches Stabilitätsprogramm Aktualisierung 2015 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Deutsches_Stabilitaetsprogramm/2015-04-15-deutsches-stabilitaetsprogramm-2015.pdf?__blob=publicationFile&v=3).

GENERAL GOVERNMENT BUDGETARY PROSPECTS (1)

	2019	2018	2017	2016	2015	2014
			(% of GDP)			
Revenue	44	44	44	44 3/4	44 1/4	44.6
Total taxes	23	22 3/4	22 3/4	22 3/4	22 3/4	22.7
Social contributions	16 3/4	16 1/2	16 1/2	16 1/2	16 1/2	16.6
Property income	1/2	1/2	1/2	1/2	3/4	0.8
Other	3 3/4	4	4	4	4 1/4	4.4
Expenditure	43 1/2	43 1/2	43 3/4	43 3/4	44	43.9
Compensation of employees and intermediate consumption	11 3/4	12	12	12 1/4	12 1/4	12.4
Social payments	24 1/4	24 1/4	24 1/4	24	24	23.8
Interest expenditure	1 1/2	1 1/2	1 1/2	1 1/2	1 1/2	1.7
Subsidies	1	1	1	1	1	0.9
Gross fixed capital formation	2 1/4	2 1/4	2 1/4	2 1/4	2 1/4	2.2
Other	2 3/4	2 3/4	2 3/4	3	3	2.9
General government deficit (-) / surplus (+)	1/2	**1/4**	**1/4**	**0**	**1/4**	**0.6**
Federal Government	1/4	1/4	1/4	0	1/4	0.4
Länder governments	1/4	1/4	1/4	1/4	1/4	0.1
Municipalities	0	0	0	0	0	0.0
Social security funds	0	— 1/4	— 1/4	— 1/4	— 1/4	0.1
General government gross debt	**61 1/2**	**63 3/4**	**66**	**68 3/4**	**71 1/2**	**74.7**

(1) Forecast figures are rounded to one-quarter of a percent of GDP. The German General Government surplus for 2014 was revised upwards slightly from 0.6% to 0.7% of GDP in the April 2015 EDP notification.

Source: Bundesministerium der Finanzen, Deutsches Stabilitätsprogramm Aktualisierung 2015 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Deutsches_Stabilitaetsprogramm/2015-04-15-deutsches-stabilitaetsprogramm-2015.pdf?__blob=publicationFile&v=3), Tables 12 and 15.

Tax Structure

Income Tax

Significant sources of revenue for the general government are the various types of income taxes. Income taxation for employees and self-employed persons is based on a progressive tax scale ranging from 14% to 45% subject to the amount of taxable income. Employees pay taxes on their income from employment in the form of wage taxes. Self-employed persons typically pay estimated taxes during the year before filing their annual income tax return. Income generated by partnerships (*Personengesellschaften*) is not subject to tax at the partnership level, but at the level of the partners. The partners pay tax on this income according to their individual income tax brackets.

Income generated by corporations is subject to corporate income tax (*Körperschaftsteuer*) at a flat rate of 15%.

Capital income received by domestic taxpayers (all types of income from capital as well as private shareholders' net gains from sales of shares in corporations) is subject to a final uniform tax rate of 25% (*Abgeltungssteuer*), taking into consideration an allowance (*Sparerpauschbetrag*) of EUR 801 (EUR 1,602 for married couples).

In addition to the various types of income tax, a solidarity surcharge of 5.5% is imposed on the applicable income tax liability.

Sources: Bundesministerium der Justiz und für Verbraucherschutz, Einkommensteuergesetz (http://www.gesetze-im-internet.de/estg/index.html); Bundesministerium der Justiz und für Verbraucherschutz, Section 4, Solidaritätszuschlaggesetz (http://www.gesetze-im-internet.de/solzg_1995/__4.html); Bundesministerium der Justiz und für Verbraucherschutz, Körperschaftsteuergesetz (http://www.gesetze-im-internet.de/kstg_1977/index.html).

VAT and Consumption Taxes

VAT serves as a significant source of revenue. VAT is a general consumption tax that is imposed on the value of most goods and services. The standard rate applicable to most goods and services is 19%. Certain items that are classified as basic necessities, such as food (except food and beverages in restaurants) and books, are subject to a reduced rate of 7%.

In addition to the VAT, there are specific consumption taxes. The most significant specific consumption taxes relate to energy and tobacco.

Sources: Bundesministerium der Justiz und für Verbraucherschutz, Umsatzsteuergesetz (http://www.gesetze-im-internet.de/ustg_1980/index.html); Bundesministerium der Justiz und für Verbraucherschutz, Umsatzsteuergesetz, Section 12 (http://www.gesetze-im-internet.de/ustg_1980/__12.html); Bundesministerium der Justiz und für Verbraucherschutz, Energiesteuergesetz (http://www.gesetze-im-internet.de/energiestg/); Bundesministerium der Justiz und für Verbraucherschutz, Tabaksteuergesetz (http://www.gesetze-im-internet.de/tabstg_2009/index.html).

Environmental Tax

The environmental tax regime aims to encourage energy conservation and to allocate the burden of taxes and contributions more equally among labor, capital and natural resources. Key points of the environmental tax regime are an electricity tax imposed on the consumption of electricity and an energy tax on mineral oil and coal. The electricity tax rate is EUR 20.50 per megawatt-hour. The rates of the energy tax are assessed in accordance with certain environmental criteria.

Sources: Bundesministerium der Justiz und für Verbraucherschutz, Stromsteuergesetz (http://www.gesetze-im-internet.de/stromstg/index.html); Bundesministerium der Justiz und für Verbraucherschutz, Stromsteuergesetz, Section 3 (http://www.gesetze-im-internet.de/stromstg/__3.html).

Trade Tax

Trade tax (*Gewerbesteuer*) is levied at the municipal level and is imposed on businesses and their objective earning power. The trade tax rate varies and depends on the municipality that levies the tax. Basis of assessment are the profits of a business enterprise as determined under income tax law or corporation tax law, increased or decreased by certain adjustments. The result is multiplied by the basic federal rate (*Gewerbesteuermesszahl*) to achieve the base amount for the trade tax (*Steuermessbetrag*), which is then multiplied by the municipal multiplier (*Hebesatz*). Beyond a required minimum level of 200%, municipalities have discretion to fix the municipal tax collection rate.

Source: Bundesministerium der Justiz und für Verbraucherschutz, Gewerbesteuergesetz (http://www.gesetze-im-internet.de/gewstg/index.html).

The following table provides an overview of the annual tax revenues of the general government divided by categories for each of the years indicated, as presented in the national accounts.

TAXES (1)

	2014	2013	2012	2011	2010
			(EUR in billions)		
Current taxes	660.4	637.9	619.8	594.7	551.8
Taxes on production and imports	313.6	304.5	300.5	295.0	277.6
of which: VAT	*203.1*	*197.0*	*194.0*	*189.9*	*180.2*
Current taxes on income and wealth	346.8	333.3	319.3	299.7	274.2
of which: Wage tax	*203.8*	*193.6*	*184.4*	*174.1*	*162.6*
Assessed income tax	*44.0*	*41.3*	*36.9*	*32.5*	*32.6*
Non-assessed taxes on earnings	*26.5*	*27.0*	*29.9*	*27.6*	*22.5*
Corporate tax	*21.6*	*21.1*	*18.5*	*17.6*	*13.7*
Capital taxes	5.5	4.6	4.3	4.2	4.4
Tax revenue of general government	**665.9**	**642.5**	**624.1**	**598.9**	**556.2**
Taxes of domestic sectors to EU	4.4	4.3	4.5	4.6	4.1
Taxes	**670.3**	**646.8**	**628.6**	**603.6**	**560.4**

(1) Definition according to the national accounts.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 - 2014 (March 2015), Table 3.4.3.16.

Government Participations

The Federal Republic and its various special funds held direct participations in 107 public and private enterprises as of December 31, 2013.

Source: Bundesministerium der Finanzen, Die Beteiligungen des Bundes - Beteiligungsbericht 2014 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Bundesvermoegen/Privatisierungs_und_Beteiligungspolitik/Beteiligungen_des_Bundes/2015-03-10-beteiligungsbericht-2014.pdf?__blob=publicationFile&v=4), Chapter A.

The following table shows information on the Federal Republic's significant direct participations (including those held through special funds) as of December 31, 2013.

PARTICIPATIONS OF THE FEDERAL REPUBLIC

Enterprises	Nominal capital of enterprise	Participation of the Federal Republic
	(EUR in millions)	(%)
Significant majority participations:		
Deutsche Bahn AG	2,150	100.0
KfW	3,750	80.0
Hypo Real Estate Holding AG (1)	2,673	100.0
Significant minority participations exceeding 25%:		
Flughafen München GmbH	307	26.0

(1) Participations held by a special fund.

Source: Bundesministerium der Finanzen, Die Beteiligungen des Bundes - Beteiligungsbericht 2014 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Bundesvermoegen/Privatisierungs_und_Beteiligungspolitik/Beteiligungen_des_Bundes/2015-03-10-beteiligungsbericht-2014.pdf?__blob=publicationFile&v=4), Chapters B, E and K paragraph II.

Direct Debt of the Federal Government

As of December 31, 2014, the Federal Government's direct debt totaled EUR 1,115.0 billion, compared to EUR 1,113.6 billion as of December 31, 2013.

Source: Bundesrepublik Deutschland Finanzagentur GmbH, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland (http://www.deutsche-finanzagentur.de/fileadmin/user_upload/finanzagentur/pdf/schuldenstand_jahresarchiv.pdf).

The Federal Government raises funds primarily through the issuance of bonds and notes. Euro-denominated bonds and notes issued by the Federal Republic are evidenced by book entry and no certificates are issued.

In addition to its own direct debt obligations, the Federal Government had outstanding guarantees in an aggregate amount of EUR 342.1 billion as of December 31, 2013. Of this amount, EUR 129.1 billion was outstanding in the form of export credit insurance, which is handled by Euler Hermes Kreditversichtungs-AG on behalf and for the account of the Federal Government. Furthermore, EUR 22.4 billion was outstanding in the form of a guarantee for a loan to Greece according to the German Financial Stability Act, and EUR 84.2 billion was outstanding in the form of a guarantee for the European Financial Stability Facility.

Source: Bundesministerium der Finanzen, Finanzbericht 2015 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Wirtschafts_und_Finanzdaten/Finanzbericht-2015-anl.pdf?__blob=publicationFile&v=2), Overview 4, page 338.

For more detailed information regarding the Federal Government's debt and guarantees, see "Tables and Supplementary Information."

For information on the Federal Government's liability as of December 31, 2014 for capital subscriptions to various international financial organizations, see the table entitled "Tables and Supplementary Information—III. Liabilities to International Financial Organizations."

TABLES AND SUPPLEMENTARY INFORMATION

I. Direct Debt of the Federal Government

Summary

	Principal amount outstanding as of December 31, 2014 (EUR in millions)
Federal Bonds (*Bundesanleihen*)	691,405
Inflation-linked Securities (*inflationsindexierte Bundeswertpapiere*)	65,000
Five-year Federal Notes (*Bundesobligationen*)	251,000
Federal Treasury Notes (*Bundesschatzanweisungen*)	107,000
Federal Savings Notes (*Bundesschatzbriefe*)	2,375
Treasury Discount Paper (*Unverzinsliche Schatzanweisungen*)	27,993
Federal Treasury Financing Paper (*Finanzierungsschätze*)	0
German Government Day-Bonds (*Tagesanleihe des Bundes*)	1,187
Further short term debt (≤ 1 year)	1,873
Borrowers' note loans (*Schuldscheindarlehen*)	11,971
of which:	
– From residents	11,652
– From non-residents	319
Old debt (1)	4,430
of which:	
– Equalization claims	4,150
Other	40
Repurchased debt	49,301
Total	**1,114,973**

(1) Mainly equalization and covering claims of the Deutsche Bundesbank, other banks and insurance companies in connection with the currency reform of 1948.

Source: Bundesrepublik Deutschland Finanzagentur GmbH, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland, published on January 8, 2015 (http://www.deutsche-finanzagentur.de/fileadmin/user_upload/finanzagentur/pdf/schuldenstand_jahresarchiv.pdf).

Debt Tables

1. Federal Bonds (1)

Title	Interest rate (% per annum)	Year of issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
6% Bonds of the Federal Republic of 1986 (II)	6	1986	2016	3,750
5.625% Bonds of the Federal Republic of 1986	5.625	1986	2016	750
6.25% Bonds of the Federal Republic of 1994	6.25	1994	2024	10,250
6.5% Bonds of the Federal Republic of 1997	6.5	1997	2027	11,250
5.625% Bonds of the Federal Republic of 1998	5.625	1998	2028	14,500
4.75% Bonds of the Federal Republic of 1998 (II)	4.75	1998	2028	11,250
6.25% Bonds of the Federal Republic of 2000	6.25	2000	2030	9,250
5.5% Bonds of the Federal Republic of 2000	5.5	2000	2031	17,000
4.25% Bonds of the Federal Republic of 2003	4.25	2003	2014	24,000
4.75% Bonds of the Federal Republic of 2003	4.75	2003	2034	20,000
4.25% Bonds of the Federal Republic of 2004	4.25	2004	2014	25,000
3.75% Bonds of the Federal Republic of 2004	3.75	2004	2015	23,000
4% Bonds of the Federal Republic of 2005	4	2005	2037	23,000
3.25% Bonds of the Federal Republic of 2005	3.25	2005	2015	21,000
3.5% Bonds of the Federal Republic of 2005	3.5	2005	2016	23,000
4% Bonds of the Federal Republic of 2006	4	2006	2016	23,000
3.75% Bonds of the Federal Republic of 2006	3.75	2006	2017	20,000
4.25% Bonds of the Federal Republic of 2007 (I)	4.25	2007	2039	14,000
4.25% Bonds of the Federal Republic of 2007 (II)	4.25	2007	2017	19,000
4% Bonds of the Federal Republic of 2007	4	2007	2018	20,000
4.25% Bonds of the Federal Republic of 2008	4.25	2008	2018	21,000
3.75% Bonds of the Federal Republic of 2008	3.75	2008	2019	24,000
4.75% Bonds of the Federal Republic of 2008	4.75	2008	2040	16,000
3.5% Bonds of the Federal Republic of 2009	3.5	2009	2019	24,000
3.25% Bonds of the Federal Republic of 2009	3.25	2009	2020	22,000
3.25% Bonds of the Federal Republic of 2010	3.25	2010	2042	15,000
3% Bonds of the Federal Republic of 2010	3	2010	2020	22,000
2.25% Bonds of the Federal Republic of 2010	2.25	2010	2020	16,000
2.5% Bonds of the Federal Republic of 2010	2.5	2010	2021	19,000
3.25% Bonds of the Federal Republic of 2011	3.25	2011	2021	19,000
2.25% Bonds of the Federal Republic of 2011	2.25	2011	2021	16,000
2% Bonds of the Federal Republic of 2011	2	2011	2022	20,000
1.75% Bonds of the Federal Republic of 2012	1.75	2012	2022	24,000
1.50% Bonds of the Federal Republic of 2012	1.50	2012	2022	18,000
2.50% Bonds of the Federal Republic of 2012	2.50	2012	2044	16,000
1.5% Bonds of the Federal Republic of 2013	1.50	2013	2023	18,000
1.5% Bonds of the Federal Republic of 2013 (II)	1.50	2013	2023	18,000
2% Bonds of the Federal Republic of 2013	2	2013	2023	18,000
1.5% Bonds of the Federal Republic and the Länder of 2013	1.50	2013	2020	405
1.75% Bonds of the Federal Republic of 2014	1.75	2014	2024	18,000
2.5% Bonds of the Federal Republic of 2014	2.50	2014	2046	7,000
1.5% Bonds of the Federal Republic of 2014	1.50	2014	2024	18,000
1% Bonds of the Federal Republic of 2014	1	2014	2024	18,000
Total Federal Bonds				**691,405**

(1) Federal Bonds (*Bundesanleihen*) are evidenced by book entry, and no certificates are issued. Maturities are 10 to 30 years. No redemption prior to maturity; including principal strips.

2. Inflation-linked Securities (1)

Title	Interest rate (% per annum)	Year of issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
1.5% Inflation-linked Bonds of the Federal Republic of 2006	1.5	2006	2016	15,000
1.75% Inflation-linked Bonds of the Federal Republic of 2009	1.75	2009	2020	15,000
0.75% Inflation-linked Notes of the Federal Republic of 2011	0.75	2011	2018	15,000
0.10% Inflation-linked Bonds of the Federal Republic of 2012	0.10	2012	2023	16,000
0.50% Inflation-linked Bonds of the Federal Republic of 2014	0.50	2014	2030	4,000
Total Inflation-linked Securities				**65,000**

(1) Inflation-linked Securities (*Inflationsindexierte Bundeswertpapiere*) are evidenced by book entry, and no certificates are issued. Maturities are five to ten years. No redemption prior to maturity.

3. Five-Year Federal Notes (1)

Title	Interest rate (% per annum)	Year of issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
2.5% Bonds of 2010-Series 156	2.5	2010	2015	17,000
2.25% Bonds of 2010-Series 157	2.25	2010	2015	19,000
1.75% Bonds of 2010-Series 158	1.75	2010	2015	16,000
2.0% Bonds of 2011-Series 159	2.0	2011	2016	16,000
2.75% Bonds of 2011-Series 160	2.75	2011	2016	18,000
1.25% Bonds of 2011-Series 161	1.25	2011	2016	16,000
0.75% Bonds of 2012-Series 162	0.75	2012	2017	16,000
0.50% Bonds of 2012-Series 163	0.50	2012	2017	18,000
0.50% Bonds of 2012-Series 164	0.50	2012	2017	16,000
0.50% Bonds of 2013-Series 165	0.50	2013	2018	17,000
0.25% Bonds of 2013-Series 166	0.25	2013	2018	17,000
1.0% Bonds of 2013-Series 167	1.0	2013	2018	17,000
1.0% Bonds of 2014-Series 168	1.0	2014	2019	16,000
0.50% Bonds of 2014-Series 169	0.50	2014	2019	16,000
0.25% Bonds of 2014-Series 170	0.25	2014	2019	16,000
Total Five-Year Federal Notes				**251,000**

(1) Five-Year Federal Notes (*Bundesobligationen*) are evidenced by book entry, and no certificates are issued. Maturities are approximately five years. No redemption prior to maturity.

4. Federal Treasury Notes (1)

Title	Interest Rate (% per annum)	Year of Issue	Maturity	Principal Amount Outstanding as of December 31, 2014 (EUR in millions)
0.25% Notes of 2013	0.25	2013	2015	15,000
0.25% Notes of 2013 (II)	0.25	2013	2015	15,000
0.00% Notes of 2013	0.00	2013	2015	15,000
0.00% Notes of 2013 (II)	0.00	2013	2015	14,000
0.25% Notes of 2014	0.25	2014	2016	13,000
0.25% Notes of 2014 (II)	0.25	2014	2016	13,000
0.00% Notes of 2014	0.00	2014	2016	13,000
0.00% Notes of 2014 (II)	0.00	2014	2016	9,000
Total Federal Treasury Notes				**107,000**

(1) Federal Treasury Notes (*Bundesschatzanweisungen*) are evidenced by book-entry, and no certificates are issued. Maturities are two years. No redemption prior to maturity.

5. Federal Savings Notes (1)

	Interest Rate (% per annum)	Year of Issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
Federal Savings Notes	0.0001% to 4.5%	2006 to 2012	2015 to 2019	2,375

6. Treasury Discount Paper (2)

	Interest Rate(3) (% per annum)	Year of Issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
Treasury Discount Paper	-0.09% to 0.18%	2014	2015	27,993

7. German Government Day-Bonds

	Interest Rate (% per annum)	Year of Issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
German Government Day-Bonds	variable, tied to EONIA	2008 to 2012	unlimited	1,187

8. Borrowers' note loans (4)

	Interest Rate (% per annum)	Year of Issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
Borrowers' note loans *(Schuldscheindarlehen)*	0.12% to 7.75%	1954 to 2013	2015 to 2037	11,971

9. FURTHER SHORT-TERM DEBT (≤ 1 YEAR)

	Interest Rate (% per annum)	Year of Issue	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
Further short-term debt (≤ 1 year)	money market rates	2014	2015	1,873

(1) Federal Savings Notes (*Bundesschatzbriefe*) are evidenced by book entry and no certificates are issued. Maturities are six or seven years. The terms of the Federal Savings Notes provide for interest rates that increase during the term of the bonds. In addition, the seven-year Federal Savings Notes provide for payment of compounded interest at maturity or upon redemption prior to maturity. No redemption is permitted prior to maturity. Since January 1, 2013 the Federal Republic of Germany stopped offering new Federal savings notes and Federal Treasury financing papers.

(2) Treasury Discount Papers (*Unverzinsliche Schatzanweisungen*) are issued at a discount and repaid at par value on the maturity date. No interest payments are made during the term of the paper. The papers are auctioned and intended for institutional investors. Maturities range from six months to twelve months. No redemption is permitted prior to maturity.

(3) Reflects annual interest rate paid to the holder by way of the initial issue discount. No redemption is permitted prior to maturity.

(4) Borrowers' note loans (*Schuldscheindarlehen*) are an instrument of the German capital market where the lending entity, generally an institutional investor, receives a certificate evidencing its loan to the borrower and the term of such loans. The certificate generally authorizes at least three assignments. No redemption is permitted prior to maturity.

10. OTHER LIABILITIES

Title	Interest Rate (% per annum)	Year of incurrence	Maturity	Principal amount outstanding as of December 31, 2014 (EUR in millions)
Old debt (1)	0% to 3%	Various	Various	4,430
Other debt (2)	Various	Various	Various	40

(1) Includes mainly equalization and covering claims of the *Deutsche Bundesbank,* other banks and insurance companies in connection with the currency reform of 1948.

(2) Includes liabilities of the Federal Government to repay amounts received from the *Investitionshilfeabgabe*, a special duty levied on income, the proceeds of which were to be used to promote investments.

Source: Bundesrepublik Deutschland Finanzagentur GmbH, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland, published on January 8, 2015 (http://www.deutsche-finanzagentur.de/fileadmin/user_upload/finanzagentur/pdf/schuldenstand_jahresarchiv.pdf).

II. Guarantees by the Federal Government (1)

Purpose of Guarantees	Principal amount outstanding as of December 31, 2013	2012
	(EUR in millions)	
Export finance loans (including rescheduled loans)(2)	129,125	124,941
Untied loans; direct foreign investments by German companies; Loans of the European Investment Bank to non-EU borrowers	41,735	41,498
Loans in connection with EU agricultural policy measures	0	0
Loans to domestic corporations and for projects in areas of Agriculture, fishing and housing construction	99,623	100,019
Contributions to international financing institutions	56,237	56,066
Co-financing of bilateral projects of German financial co-operation	6,399	4,067
Successor agencies to *Treuhandanstalt*	1,009	1,009
Interest compensation guarantees	8,000	8,000
Total guarantees pursuant to the 2010 German Budget Act	**342,128**	**335,600**
Guarantee for a loan to Greece according to the German Financial Stability Act	22,400	22,400
Loan guarantees under the Act on Guarantees pertaining to the European Financial Stability Facility	95,300	100,100
Total guarantees	**459,828**	**458,100**

(1) Does not include guarantees under the KfW Law with respect to money borrowed, bonds issued and derivative transactions entered into by KfW. For information relating to KfW's borrowings, see "KfW—Business—Capital Markets—Funding."

(2) Includes export finance loans extended by KfW IPEX-Bank guaranteed by the Federal Republic through Euler Hermes Aktiengesellschaft ("HERMES"), the official German export credit insurer. For information relating to loans extended by KfW IPEX-Bank benefiting from HERMES coverage, see "KfW—Business—Export and Project Finance (KfW IPEX-Bank)—Business."

Sources: Bundesministerium der Finanzen, Finanzbericht 2015 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Wirtschafts_und_Finanzdaten/Finanzbericht-2015-anl.pdf?__blob=publicationFile&v=2), Overview 4, page 339; Bundesministerium der Finanzen, Finanzbericht 2014, Overview 4, page 349.

III. Liabilities to International Financial Organizations

The Federal Republic is obligated to contribute to the capital subscriptions and, in some cases, to additional financing, according to the requirements of each respective membership. Such contributions are in many cases stated initially in 1944 with one U.S. dollar being an equivalent to 0.888671 grams of gold, and later – with the creation of the Special Drawing Right ("SDR")—being an equivalent to the SDR at the same value. The SDR was established by an amendment to the Articles of Agreement of the IMF in July 1969. From July 1, 1974 to December 31, 1980 the exchange rate between world currencies and the SDR was determined on the basis of a basket of 16 currencies, including the U.S. dollar, which accounted for approximately one-third of the value of the basket. From 1981 to 2000, the basket was further reduced to the five key currencies, including the U.S. dollar. The value of the SDR, the possible inclusion of new currencies in the basket, the weight of each of these currencies in the basket, and the financial instruments used in determining the interest rate on the SDR, are reviewed every five years. The adoption of the euro as the common currency for the initial 11 Member States of the European Union called for the last change in the composition of the SDR basket so far. With effect from January 1, 2001, the SDR basket consists of four currencies: U.S. dollar, euro, Japanese yen and pound sterling. The currency weight of the U.S. dollar in the SDR basket initially was 41.9% at the last review of the SDR in 2011, changing on a daily basis as a result of exchange rate fluctuations. On December 30, 2013, SDR 1 equaled EUR 1.117320. SDR 1 equaled USD 1.540000.

Subscriptions or Commitments by the Federal Republic to International Financial Organizations as of End of December, 2014

Name of organization	Subscription or commitment by the Federal Republic (1)	Amount paid in
	(USD in millions)	
IMF (2)	22,386	22,386
International Bank for Reconstruction and Development (IBRD) (3)(4)	11,158.9	688.4
International Development Association (IDA) (3)(4)	25,877.3	22,021.2
International Finance Corporation (IFC) (3)(4)	128.9	128.9
European Investment Bank (EIB) (5)(6)	54,053.9	4,689
African Development Bank (AfDB) (3)(5)	4,028.5	179.8
African Development Fund (AfDF) (3)(5)	3,528.3	3,528.3
Asian Development Bank (AsDB) (3)(5)	7,071.7	353.7
Asian Development Fund (AsDF) (3)(5)	2,374.0	2,098.0
Inter-American Development Bank (IDB) (3)(5)	2,386.6	93.7
Inter-American Investment Corporation (IIC) (3)(5)	13.3	13.3
Fund for Special Operations (FSO) (3)(5)	241.3	241.3
International Fund for Agricultural Development (IFAD) (3)(5)	467.4	413.7
Caribbean Development Bank (CDB) (3)(5)	106.6	23.5
Special Development Fund of the Caribbean Development Bank (SDF) (3) (5)	98.6	82.6
European Bank for Reconstruction and Development (EBRD) (3)(5)	3,104.5	647.1
Council of Europe Development Bank (CEB) (3)(5)(6)	1,111.8	123.4

(1) Subscriptions are in part committed in USD, SDR or EUR. SDR or EUR commitments are converted to USD at year-end exchange rates, except that certain SDR commitments are converted at the fixed conversion rate of SDR 1 = USD 1.53527.

(2) Source: computation provided by the Ministry of Finance based on data provided by the IMF; the subscription (quota) is fully paid in by the Deutsche Bundesbank. The foreign currency part of the quota (25% of the subscription) and the Deutsche Bundesbank's further contributions to Fund's financing are part of the foreign currency reserves of the Deutsche Bundesbank. The government does not provide any guarantees or provisions for risks of IMF loans.

(3) Source: computation provided by the Ministry of Finance, the Ministry for Economic Cooperation and Development and Deutsche Bundesbank.

(4) Source: IBRD and IDA: World Bank Annual Report 2014 (June 30, 2014); IFC: IF Annual Report 2014 (June 30, 2014). The amount does not differentiate between amount subscribed and paid-in.

(5) Source: Annual Reports/Financial Statements of the Development Banks (December 31, 2013)

(6) Source: computation provided by the Ministry of Finance based on euro exchange rate of the European Central Bank at year-end 2014 of EUR 1 per USD 1.21410.

Group management report

Basic information on KfW Group

Overview

KfW Group consists of KfW and five consolidated subsidiaries. As the promotional bank of the Federal Republic of Germany – which owns 80 % of KfW while the German Federal States own 20 % – KfW is one of the world's leading promotional banks. The institutional framework for the promotional mandate including the Federal Republic of Germany's liability for KfW's obligations is defined in the KfW Law.

KfW supports sustainable improvement of economic, social and environmental conditions around the world, with an emphasis on promotion of the German economy. In its promotional activities, KfW focuses on societal megatrends. A variety of different financing products and services address in particular the areas SMEs, start-ups, environmental protection, the housing sector, infrastructure, education, project and export finance, and development cooperation. The domestic promotional lending business with enterprises and private individuals is characterised by the proven and successful strategy of on-lending, in which KfW extends loans to commercial banks, which, in turn, lend the funds to the ultimate borrowers at favourable rates. This strategy eliminates any need for KfW to have its own network of branch offices. Business activities are funded almost fully on the international capital markets; KfW is globally one of the most active and largest bond issuers. In addition to KfW, the group's main operating subsidiaries are (i) KfW IPEX-Bank, which provides project and export financing, and (ii) DEG, which is active in promoting the private sector in developing and emerging market countries.

In accordance with the business sector structure for KfW Group, the sectors and their main products and services can be presented as follows:

Mittelstandsbank *(SME Bank)*	– Financing of corporate and industrial pollution control investments – Equity financing – Advisory services
Kommunal– und Privatkundenbank/Kreditinstitute *(Municipal and Private Client Bank/Credit Institutions)*	– Financing for housing construction and modernisation – Education finance – Infrastructure and social finance – General funding of the special credit institutions of the German Federal States – Individual financing banks – Transactions on behalf of the Federal Government
Export and project finance	– Financing for German and European export activities – Financing for projects and investments in German and European interests
Promotion of developing and transition countries	– Promotion of developing and transition countries on behalf of the Federal Government (budget funds) with complementary market funds raised by KfW – Financing provided by DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (private enterprise financing)
Capital markets	– Securities and money market investments – Holding arrangements for the Federal Republic of Germany – Transactions mandated by the Federal Government, loan granted to Greece – Funding
Head office	– Central interest rate and currency management – Strategic equity investments

Composition of KfW Group – Total assets (before consolidation)

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions
KfW, Frankfurt am Main	488,760	464,185
Subsidiaries		
KfW IPEX-Bank GmbH, Frankfurt am Main (KfW IPEX-Bank)	27,348	23,973
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (DEG)	5,647	5,097
KfW IPEX-Beteiligungsholding GmbH, Frankfurt am Main	2,376	2,371
KfW Beteiligungsholding GmbH, Bonn	398	385
tbg Technologie-Beteiligungs-Gesellschaft mbH, Bonn (tbg)	208	209
Finanzierungs- und Beratungsgesellschaft mbH, Berlin (FuB)[1]	–	24
Investments accounted for using the equity method		
Railpool Holding GmbH & Co. KG, Munich[2]	–	374
Railpool GmbH, Munich[2]	–	21
Microfinance Enhancement Facility S.A., Luxembourg (24.1 %)	444	306
Green for Growth Fund, Southeast Europe S.A., Luxembourg (18.9 %)	253	194
AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG, Munich (47.5 %)	73	49

[1] Finanzierungs- und Beratungsgesellschaft mbH was deconsolidated in financial year 2014 for reasons of materiality.

[2] The shares in the joint ventures Railpool GmbH and Railpool Holding GmbH & Co. KG were sold in financial year 2014. These two joint ventures were previously accounted for using the equity method and included in the consolidated financial statements and have consequently been removed from the consolidated group of companies.

The development of KfW Group's operating result is largely dependent on KfW.

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 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 societally 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, for example, 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 50 % of new domestic promotional business volume utilised for the SME 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 risk-bearing capacity aspects. 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 strategic planning process are summarised in the business strategy adopted by the Executive Board, which comprises KfW 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 the individual targets. The business strategy forms the basis for the risk strategy. The business and risk strategies are approved by the Executive Board and then presented to the supervisory body (Board of Supervisory Directors) for approval (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. The group business sector planning process deals first with strategic planning with a medium to long-term perspective and then with operational planning focused on the following financial year. The group-wide strategic objectives set by the Executive Board form the basis for the strategic planning stage.

Strategic 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. These assessments take into account internal factors and resources, as well as targeted earnings levels. The central areas (e. g. Information Technology, Human Ressources, 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 with the larger strategic objectives is enhanced. Cost and FTE planning are conducted in parallel to business sector strategic planning for all areas, applying a top-down approach.

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. The business sectors plan their new business, risks and earnings, and all areas of the bank plan their budgets for the following year based on these guidelines, taking into account any changes in external or internal factors. These plans are checked for consistency with the group's strategic planning and for any risk implications. A forecast for the following three years is then calculated in this context. The Executive Board either approves the resultant operating budget or instructs the business sectors to adjust their plans. Any changes to the business strategy are subject to consultation with risk management 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.

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. As part of strategic controlling, the development of relevant control variables, their attainment, and the cause of any failure in this respect are analysed on an ongoing basis using the strategic objectives and the business sectors' strategic plans. 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 monthly strategic performance report and the quarterly strategy and efficiency 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 Bylaws of KfW. 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 equivalents ("FTE") 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.

Economic report

General economic environment

Overall, the development of the global economy was disappointing in 2014. Momentum in major countries and economic areas was considerably lower than anticipated at the beginning of the year. Among the industrialised countries, this was particularly the case for the euro area and Japan. Other industrialised countries performed surprisingly well (particularly the USA). As a group, the developing and emerging market countries continued to grow faster than the industrialised countries. Nevertheless, growth in many emerging market countries has decreased to a very low level, and some face real crises. This is the result of a variety of structural weaknesses that require fundamental reform and will take time to overcome. The decline of the oil price, which fell considerably in 2014, caused a swift from oil exporters to oil importers. Many oil exporting countries were able to weather the losses, but others encountered serious difficulties. This is particularly significant when combined with regional or geopolitical risks, as in the case of Russia. The world economy was affected by various geopolitical risks in 2014.

Economic recovery was moderate in member states of the European Economic and Monetary Union ("EMU") in 2014 and the growth environment remained very fragile. This was due to increased geopolitical risks, ongoing high unemployment and the continuing difficulties in accessing credit for many businesses and private households. Overall, the economic output in EMU member states increased by 0.9 % year-on-year in 2014. Growth was thus weaker than KfW expected a year ago. In particular the increased uncertainty resulting from worsening geopolitical conflicts had a negative impact.

Germany grew considerably more strongly in 2014 than in the two previous years. The continuing favourable situation on the labour market, with employment recently hitting an all-time high (42.7 million people in employment), once again had a positive impact on consumer spending and housing construction. Private investments in both equipment and commercial buildings returned to positive territory for the first time since 2011. Unlike in 2013, net exports had a stimulating effect on economic growth. Annual average price-adjusted GDP for 2014 rose by 1.6 % overall. This means that KfW correctly anticipated the trends in the GDP expenditure components a year ago, but that economic growth was in the lower range of the group's projections, which had predicted growth of up to 2 %. This was largely due to the disappointing performance in the second and third quarters of 2014, when economic activity was more or less flat in the face of an increasingly unfavourable international environment. The recovery in investment stalled and companies were unsettled by dashed growth expectations in the euro area and the numerous geopolitical crises.

The key factors influencing the **financial markets** in 2014 were the worsening geopolitical conflicts and continuing very expansionary monetary policies of the world's largest central banks. While the US Federal Reserve tapered its securities purchases over the course of the year, bringing them to a close at the end of October, the Japanese and European central banks expanded their monetary stimulus measures. Financial markets around the world thus continued to benefit from abundant liquidity. Given the geopolitical risks, safe investments were particularly in demand. The beneficiaries included bonds from European countries undergoing reforms. Yields fell considerably and, in the case of Italy and Spain, reached new all-time lows for ten-year maturities.

The sudden, sharp fall in crude oil prices caused substantial unrest on the financial markets in the second half of 2014. The currency and financial markets of some oil-producing countries came under more pressure in this environment.

In response to the fragile economic environment and falling inflation, key interest rates in the euro area were cut further in the course of 2014. The European Central Bank agreed its first ever negative deposit rate. It also launched programmes to buy covered bonds and asset-backed securities in the autumn and raised the prospect of further measures. In light of this, there was a major decline in money market rates in the euro area from mid-year onwards. Subject to some volatility, US money market rates trended almost sideways into the autumn. It was not until the end of the year that they rose somewhat amid speculation that key interest rates in the USA were about to turn. Over longer maturities, interest rates in the euro area saw a clear downward trend in 2014. Yields on ten-year German government bonds fell by almost 140 basis points to reach a new low of 0.54 % p.a. in late December. Yields on ten-year US government bonds saw greater volatility during the year. By year-end they were a full 85 basis points lower than at the start. Yields on ten-year German government bonds in 2014 were down an average of 40 basis points year-on-year, while yields on ten-year US government bonds recorded an increase of around 20 basis points compared to their 2013 average. In the USA, the average slope of yield curves increased in 2014 compared to 2013, while those in Europe flattened.

The diverging monetary policy prospects in the euro area and the USA put considerable downward pressure on the EUR/USD exchange rate. This hit 1.21 at the end of December, the lowest it had been all year. The average exchange rate in 2014 was 1.33, almost unchanged on the previous year.

Development of KfW Group

KfW reported another highly satisfactory financial year in 2014. The plans and strategic objectives for the positioning targeted in the medium term were achieved overall. In spite of an increasingly difficult environment, the 2014 financial year was a successful one with a **promotional business volume** of EUR 74.1 billion (2013: EUR 72.5 billion). Promotional activities focused on the socially and economically significant megatrends of "climate change and the environment", "globalisation and technical progress" and "demographic change". The measures introduced for comprehensive modernisation were continued.

The **earnings position** developed better than expected, exceeding the figure reported in 2013, primarily as a result of the excellent valuation result. At EUR 2.0 billion, the Operating result before valuation (before promotional activity) is, as expected, lower year-on-year (2013: EUR 2.3 billion). This was primarily due to the deterioration of the interest rate environment. The figure was also lower than projected. The cost-income ratio (before promotional activity) increased to 34.4% as a result of declining operating income and increasing administrative costs. The latter were attributable in particular to modernisation efforts and regulatory measures, such as KfW's mandatory application, by analogy, of the German Banking Act *(Kreditwesengesetz – "KWG")*. The valuation result closed with moderate expenses in net terms and thus much better than expected. This was primarily due to lower than projected net charges from risk provisions for lending business as well as to positive contributions to earnings from the securities and equity investment portfolios. At EUR 1.5 billion (2013: EUR 1.3 billion), consolidated profit exceeded the projected level. With this result, KfW is improving its capital base in order to safeguard its promotional capacity in the long term and to ensure it can meet higher regulatory requirements. In its current consolidated income projections for 2015, KfW expects Consolidated profit before IFRS effects from hedging of slightly under EUR 1 billion, which is in the range of strategic projections.

Consolidated total assets rose by EUR 24.3 billion to EUR 489.1 billion in 2014. This increase is primarily due to interest-rate and exchange-rate-induced fair value changes in derivatives used for hedging purposes and their recognition in hedge accounting. The increase in the volume of new business is reflected in the EUR 7.1 billion rise in Net loans and advances to EUR 365.3 billion. Unscheduled repayments in domestic promotional lending business decreased year-on-year. The promotional business is primarily funded through the international capital markets. The volume of own issues reported under Certificated liabilities amounted to EUR 404.0 billion (year-end 2013: EUR 385.5 billion).

KfW Group's business in 2014 was largely characterised by the following developments:

A. Successful promotional year for KfW

With a promotional business volume of EUR 74.1 billion in 2014 (2013: EUR 72.5 billion), the group exceeded its projected new business volume of EUR 69.4 billion.

KfW's domestic promotional business reached a high level with commitments totalling EUR 47.6 billion, despite companies' declining investment propensity (2013: EUR 51.6 billion). The decline on the previous year had been expected and primarily affects corporate financing by Mittelstandsbank. This development is also reflected by the decline in the SME share of financing to 44% (2013: 47%). Foreign business, meanwhile, recorded strong growth and reached EUR 25.5 billion. This development was due to both stronger demand in business sector Export and project finance and higher commitments in business sector Promotion of developing and transition countries. A high 36% across all business sectors was attributable to the "climate change and environment" megatrend (2013: 38%). The promotional business volume in the business sector Capital markets expanded to EUR 1.2 billion.

KfW raised EUR 57.4 billion on the international capital markets to fund its business activities (2013: EUR 65.4 billion). The lower borrowing, compared to both the previous year and the forecast level (EUR 65 to 70 billion), was largely due to declining yet still high unscheduled repayments in the lending business, which led to greater cash inflow than expected.

Promotional business volume of KfW Group

	2014 EUR in billions	2013 EUR in billions
Domestic business	**47.6**	**51.6**
Mittelstandsbank *(SME Bank)*	19.9	22.6
Kommunal- und Privatkundenbank/Kreditinstitute *(Municipal and Private Client Bank/Credit Institutions)*	27.7	28.9
Capital markets	**1.2**	**0.7**
International business	**25.5**	**20.5**
Export and project finance	16.6	13.7
Promotion of developing and transition countries	8.8	6.7
Volume of new commitments[1)]	**74.1**	**72.5**

[1)] Adjusted for export and project financing refinanced through KfW programme loans.

B. Operating result below expectations
At EUR 2,023 million (2013: EUR 2,302 million), the Operating result before valuation (before promotional activity) was below both the prior-year figure and the forecasts.
This was in particular due to the development of Net interest income (before promotional activity), which was characterised by declining interest structure contributions in the current, low interest rate environment.

At EUR 313 million (2013: EUR 280 million), Net commission income (before promotional activity) exceeded expectations. This was principally due to non-recurring effects from the renegotiation of collateral agreements.

At EUR 1,059 million (2013: EUR 976 million), the increase in Administrative expenses (before promotional activity) was substantial and exceeded the original budget. The deciding factors here were both the extensive investments in modernising KfW and, in particular, measures connected to KfW's application of the KWG.

C. Charges from risk provisions for lending business lower than expected
Charges arising from risk provisions for lending business totalled EUR 143 million. This was below the projected standard risk costs and far beneath the low level of the previous year (EUR 311 million), which was still characterised by high net additions to provisions in the Maritime industries segment.

D. Positive developments in the securities and equity investment portfolios
The monetary policy path of the central banks continued to shape the situation on the financial markets in 2014. The securities portfolio continued to benefit from the abundant liquidity, achieving a contribution to earnings through profit or loss of EUR 57 million as in 2013. In addition, positive changes in value were recognised directly in equity in the revaluation reserve. The total volume of securities and investments not carried at fair value resulted in net positive differences to market values in 2014. A contribution to earnings of EUR 122 million (2013: EUR 46 million) from the equity investment portfolio largely resulted from the Promotion of developing and transition countries business sector.

E. Decrease in promotional activity due to drop in demand
KfW's domestic promotional activity, which has a negative impact on KfW Group's earnings position, decreased to EUR 364 million in 2014 (2013: EUR 597 million).

The decrease was caused by a decline in interest rate reductions as a result of the lower demand for, and volume of, subsidised loans (EUR 345 million; 2013 EUR 584 million).

The following key figures provide an overview of the developments in 2014 and are explained in more detail below:

Key financial figures of KfW Group

Key figures of the income statement	2014 EUR in millions	2013 EUR in millions
Operating result before valuation (before promotional activity)	2,023	2,302
Operating result after valuation (before promotional activity)	1,953	2,143
Promotional activity (expense)	364	597
Consolidated profit	1,514	1,273
Cost/income ratio (before promotional activity)[1]	34.4%	29.8%

Key economic figures	2014 EUR in millions	2013 EUR in millions
Consolidated profit before IFRS effects from hedging	1,467	1,299

Key figures of the statement of financial position	31 Dec. 2014 EUR in billions	31 Dec. 2013 EUR in billions
Total assets	489.1	464.8
Volume of lending	440.3	432.0
Volume of business	572.5	545.4
Equity	21.6	20.5
Equity ratio	4.4%	4.4%

[1] Administrative expenses (before promotional activity) in relation to adjusted income. Adjusted income is calculated from Net interest income and Net commission income (in each case before promotional activity).

Development of earnings position

The earnings position in 2014 was characterised by a decline in the operating result compared to 2013, combined with an improvement in the valuation result from the loan, securities and equity investment portfolio. This resulted in a consolidated profit of EUR 1.5 billion, exceeding both the previous year's result and forecasts.

Earnings position

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Net interest income (before promotional activity)	2,768	2,997	–229
Net commission income (before promotional activity)	313	280	33
Administrative expenses (before promotional activity)	1,059	976	83
Operating result before valuation (before promotional activity)	**2,023**	**2,302**	**–279**
Risk provisions for lending business	–143	–311	168
Net gains/losses from hedge accounting and other financial instruments at fair value	69	138	–69
Net gains/losses from securities and investments and from investments accounted for using the equity method	4	14	–9
Operating result after valuation (before promotional activity)	**1,953**	**2,143**	**–189**
Net other operating income	20	–210	230
Profit/(loss) from operating activities (before promotional activity)	**1,973**	**1,933**	**40**
Promotional activity (expense)	364	597	–233
Taxes on income	95	63	32
Consolidated profit	**1,514**	**1,273**	**242**
Consolidated profit before IFRS effects from hedging	**1,467**	**1,299**	**168**

At EUR 2,023 million (2013: EUR 2,302 million), the **Operating result before valuation (before promotional activity)** was below both the prior-year figure and forecasts.

At EUR 2,768 million, **Net interest income (before promotional activity)** decreased due to the worsening of the interest rate environment with a low interest rate and flatter yield curve than in the 2013 financial year (EUR 2,997 million). However, it remains the most important source of income.
While the interest margins in the lending business, particularly from the business sector Export and project finance, remained stable and KfW enjoyed very good funding opportunities given its high credit rating, Net interest income declined due to the lower profit from maturity transformation, which was less than expected. Interest rate movements resulted in lower income from reinvestment following the very high unscheduled repayments in the previous years and the declining but still high unscheduled repayments in the current financial year. Income from early repayment penalties as a result of unscheduled repayments in 2014, which may in the future lead to corresponding reduced income, was down year-on-year.

The **Net commission income (before promotional activity)** was EUR 313 million, which is higher than the 2013 figure of EUR 280 million.

Non-recurring compensation paid by derivatives partners following renegotiation of the collateral agreements totalled EUR 57 million in the 2014 financial year and was a key factor for the increase in Net commission income (before promotional activity). At EUR 82 million, loan processing fees moved in the opposite direction (2013: EUR 91 million). Income generated from managing Financial Cooperation on behalf of the German Federal Government in the business sector Promotion of developing and transition countries, which included non-recurring effects in the previous year due to renegotiation of the remuneration arrangement, also decreased, to EUR 156 million (2013: EUR 169 million). This item was offset by an increase in KfW's Administrative expenses, in part, due to branch offices in partner countries.

The substantial rise in **Administrative expenses (before promotional activity)** to EUR 1,059 million (2013: EUR 976 million) was in particular due to the measures required to fulfil KWG requirements and to extensive investments in modernising KfW accounted for as Personnel and Non-personnel expenses. Projections were exceeded as a result of non-recurring effects.

Personnel expenses increased by EUR 44 million to EUR 585 million (2013: EUR 541 million). This was due to the higher number of employees, standard and performance-based pay increases as well as non-recurring charges connected to the ongoing revaluation of personnel measures taken in previous years.
Non-personnel expenses (before promotional activity) amounted to EUR 474 million (2013: EUR 434 million). Besides the non-recurring charges in connection with the ECB review of KfW IPEX-Bank, the increase of EUR 40 million was attributable to advisory services. These services related in particular to the necessary fulfilment of regulatory requirements and the comprehensive modernisation of KfW's IT architecture, which will continue to be intensively pursued in the next few years. This extensive project portfolio is also expected to lead to a rise in Administrative expenses in the future, particularly due to the mandatory application of significant bank regulatory requirements.

The cost-income ratio before promotional activity increased to 34.4% (2013: 29.8%). This was primarily due to the expected decline in operating income as well as increased expenditure associated with KfW's mandatory application of the KWG and the further modernisation of KfW.

KfW Group's **Risk provisions for lending business** resulted in charges of EUR 143 million (2013: EUR 311 million), which was below the projected standard risk costs. Risk provisions were required particularly in domestic business and in the Promotion of developing and transition countries business sector. Compared with the previous year, there was a lower requirement for risk provisioning of export and project financing in the Maritime industries segment.

At EUR 221 million, net additions to the provision for imminent credit risks including direct write-offs were significantly lower than in 2013 (EUR 382 million). This decline was particularly concentrated on the business sector Export and project finance with additions of just EUR 34 million (2013: EUR 218 million), especially in the Maritime industries segment with net additions of just EUR 4 million (2013: EUR 170 million). The Export and project finance business sector also recorded income from recoveries of loans written off totalling EUR 37 million (2013: EUR 22 million). The main focuses of the net additions in 2014 were the business sectors Promotion of developing and transition countries with EUR 64 million and Kommunal- und Privatkundenbank/Kreditinstitute with EUR 57 million. As of year-end 2014, risk provisions amounted to EUR 1.4 billion (2013: EUR 1.5 billion), of which EUR 0.7 billion (2013: EUR 0.9 billion) related to Export and project finance.

In 2014, there was almost no change in the risk provisions for loan portfolio risks which were not yet allocable. As of year-end 2014, risk provisions remained at EUR 0.6 billion.

Risk provisions for lending business cover all imminent and latent risks, reflecting the consistent implementation of KfW Group's conservative risk policy.

Net gains/losses from hedge accounting and other financial instruments at fair value stood at EUR 69 million (2013: EUR 138 million) and in 2014 were primarily driven by positive effects from the equity investment portfolio partially offset by the valuation of foreign currency positions and hedging transactions.

The equity investment portfolio measured at fair value through profit or loss was primarily influenced by the positive performance of investments and the appreciation of the US dollar against the euro. It generated income of EUR 175 million (2013: EUR 78 million). This contribution is primarily attributable to the business activities of DEG in promoting developing and transitional countries.

The result from foreign currency translation had a negative effect with a charge of EUR 57 million (2013: EUR –10 million). This was primarily attributable to non-monetary financial instruments in the US dollar equity investment portfolio not recognised at fair value, which are recognised at the rate on the transaction date, while the relevant refinancing is converted at the exchange rate on the balance sheet date.

Hedge accounting, borrowings recognised at fair value, including derivatives used for hedging purposes, and other derivatives transactions had a total net negative effect on earnings of EUR 54 million (2013: EUR +56 million). The mark-to-market derivatives are part of economically hedged positions. However, situations where the other part of the hedging relationship cannot be carried at fair value or has to be measured with a different method inevitably result in temporary fluctuations in income that fully reverse over the term of the transaction. Hedging derivatives that in previous years had led to purely IFRS-induced negative earnings effects were sold early in the reporting year in order to optimise collateral management. This did not have a significant impact on risk management.

Net gains from securities and investments accounted for using the equity method of EUR 4 million (2013: EUR 14 million) largely resulted from offsetting developments in the securities and equity investment portfolio.

Net gains/losses from securities not carried at fair value through profit or loss slightly improved on 2013 with a positive earnings contribution of EUR 53 million (2013: EUR 43 million). Structured securities performed particularly well.

The general development of financial markets led to an increase in the value of securities not recognised through profit or loss of EUR 55 million (2013: EUR 38 million), which were recognised in equity under Revaluation reserves. These increases included write-ups of EUR 22 million (2013: EUR 28 million) due to the reclassifications between measurement categories that took place in 2008 (structured securities) and 2009 (securities held as a liquidity reserve).

Moreover, the net negative difference of EUR 8 million between the carrying amount and the fair value for those securities and investments not carried at fair value improved by EUR 53 million (2013: by EUR 169 million) to a positive difference of EUR 45 million as of 31 December 2014. This development was primarily due to price recoveries of well-collateralised covered bonds and securities in the ABS portfolio. Overall, the total volume decreased further and amounted to EUR 9.2 billion as of 31 December 2014 (year-end 2013: EUR 10.3 billion).

Net losses from equity investments not carried at fair value through profit or loss amounted to EUR 54 million were largely due to Mittelstandsbank's domestic promotional lending portfolio. The comparable expense for financial year 2013 was EUR 32 million.

Net other operating income of EUR 20 million (2013: EUR –210 million) includes income from repurchasing own issues of EUR 29 million. The previous year's negative result was primarily due to the non-recurring charge of EUR 264 million from the substitution of federal funds.

KfW's domestic **promotional activity,** which has a negative impact on KfW Group's earnings, fell below the prior-year level to EUR 364 million in 2014 (2013: EUR 597 million). This was due to a decline in demand.

The key component of KfW's promotional activity is interest rate reductions. KfW grants these for certain domestic promotional loans during the first fixed interest rate period in addition to passing on its favourable refinancing conditions. The volume of interest rate reductions provided fell to EUR 345 million in 2014 (2013: EUR 584 million). This was primarily due to the decline, due to demand factors, in volume of interest rate-reduced promotional loans in Mittelstandsbank's corporate financing, which resulted from ongoing investment reticence, uncertainties in the economic environment and, at the same time, the healthy liquidity position of businesses. The generally low interest rates also reduced the potential to stimulate the promotional business with additional reductions.

Moreover, promotional activities, as reported in Net commission income and Administrative expenses, were provided in the amount of EUR 19 million (2013: EUR 13 million). These activities were particularly targeted at improving sales opportunities for KfW's promotional products.

Accounting for taxes on income, a **consolidated profit** of EUR 1,514 million was recorded, which exceeded that of the previous year (EUR 1,273 million). This performance is characterised by a very good valuation result in 2014 and high non-recurring charges from the substitution of federal funds in 2013.

Consolidated profit before IFRS effects from hedging is a further key financial figure based on consolidated profit in accordance with IFRS. Derivative financial instruments are entered into for hedging purposes. Under IFRS, the requirements for recognition and valuation of derivatives and hedges nevertheless give rise to temporary net gains or losses. In KfW's opinion, such net gains or losses do not sufficiently reflect economically effective hedges.

As a result, the following reconciliations were performed by eliminating temporary contributions to income in the amount of EUR –47 million (2013: EUR +27 million) as follows:

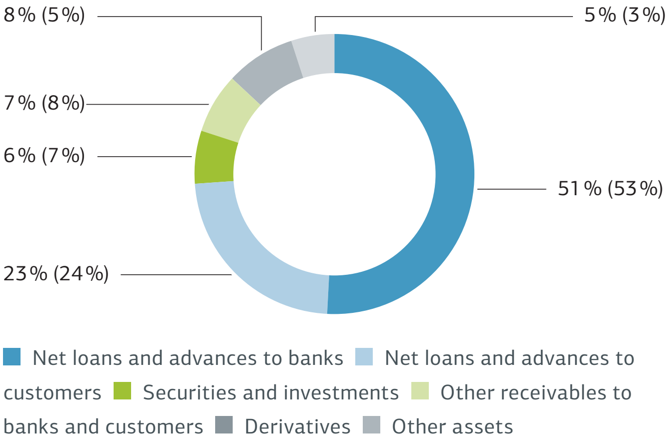
– Valuation results from micro and macro hedge accounting. All hedging relationships are economically effective and do not give rise to any net gain or loss over the entire life of the hedge.
– Net gains or losses from the use of the fair value option to avoid an accounting mismatch in the case of borrowings include related hedging derivatives. Accumulated over the entire life of the hedge, the economically effective hedges do not give rise to any net gain or loss.
– Net gains or losses from the fair value accounting of hedges with high economic effectiveness but not qualifying for hedge accounting. These hedges do not give rise to any net gain or loss over the entire period to maturity.
– Net gains or losses from foreign currency translation of foreign currency positions, in accordance with recognition and valuation requirements for derivatives and hedging relationships.

In 2014, the reconciled earnings position amounted to a profit of EUR 1,467 million (2013: EUR 1,299 million). KfW Group achieved a very good result in financial year 2014 that exceeded its sustainable earnings potential.

Development of net assets

Lending to banks and customers has remained KfW Group's core business. As of 31 December 2014, a total of 74% of KfW Group's assets was attributable to its lending business.

Assets
31 Dec. 2014 (31 Dec. 2013)



The **lending volume** was slightly above the prior-year level and amounted to EUR 440.3 billion.

Volume of lending

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Loans and advances	367,189	360,218	6,971
Risk provisions for lending business	–1,857	–1,952	95
Net loans and advances	**365,332**	**358,265**	**7,067**
Contingent liabilities from financial guarantees	3,501	3,654	–153
Irrevocable loan commitments	57,049	54,373	2,675
Loans and advances held in trust	14,448	15,718	–1,270
Total	**440,329**	**432,010**	**8,319**

Loans and advances increased by EUR 7.0 billion from EUR 360.2 billion in 2013 to EUR 367.2 billion in 2014, mainly due to disbursements in new promotional business and exchange rate effects from the appreciation of the US dollar. This was offset by high unscheduled repayments in the domestic promotional loans business. At EUR 365.3 billion, Net loans and advances again represented 83 % of lending volume.

Contingent liabilities from financial guarantees of EUR 3.5 billion remained at the prior year level. Irrevocable loan commitments rose by EUR 2.7 billion to EUR 57.0 billion in 2014, largely due to new commitments in international financing. Within assets held in trust, the volume of Loans and advances held in trust, which primarily comprised loans to promote developing countries financed by budget funds provided by the Federal Republic of Germany, decreased by EUR 1.3 billion to EUR 14.4 billion.

At EUR 32.6 billion, Other loans and advances to banks and customers were below the previous year's amount of EUR 36.4 billion.

The total amount of Securities and investments at EUR 30.8 billion was at the previous year's level.

Securities and investments

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Bonds and other fixed-income securities	28,600	28,535	65
Shares and other non-fixed income securities	0	1	–1
Equity investments	2,114	2,032	83
Shares in non-consolidated subsidiaries	8	2	6
Total	**30,722**	**30,569**	**153**

The securities portfolio, almost unchanged year-on-year, continued to constitute a significant item in Securities and investments. The decrease in Bonds and other fixed-income securities of EUR 0.4 billion to EUR 27.5 billion was offset by an increase of EUR 0.4 billion in the volume of money market securities to EUR 1.1 billion.

The fair values of derivatives with positive fair values, which were primarily used to hedge refinancing transactions, increased by EUR 14.6 billion, from EUR 23.9 billion to EUR 38.5 billion, due to changes in market parameters including exchange rates.

Netting agreements reached with counterparties, which also included derivatives with negative fair values, and collateral agreements (largely cash collateral received) reduced counterparty risk substantially. Value adjustments from macro hedging related to the underlying asset portfolios increased significantly by EUR 6.8 billion, from EUR 11.7 billion to EUR 18.5 billion, due to exchange rate movements primarily in the US dollar.

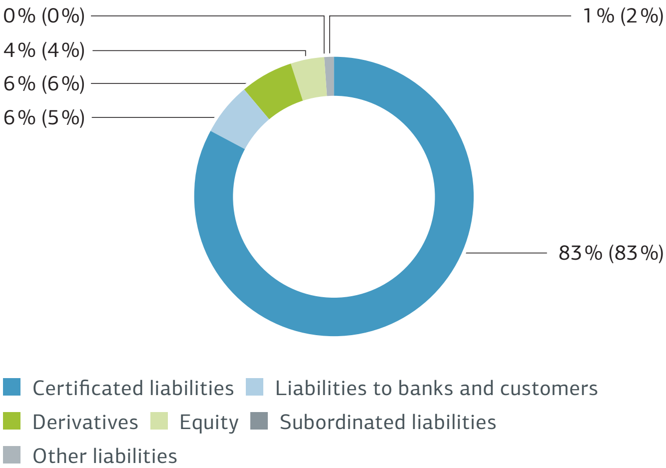
There were only minor changes in the other asset line items in the statement of financial position.

Development of financial position

KfW Group's funding strategy in the international capital markets rests on the three pillars of "benchmark bonds in euros and US dollars", "publicly placed bonds outside the benchmark programmes" and "private placements". Funds raised in the form of certificated liabilities continued to play a critical role, at 83% of total assets, unchanged from the previous year.

Financial position

31 Dec. 2014 (31 Dec. 2013)



In 2014, borrowings increased by EUR 22.6 billion to EUR 434.2 billion.

Borrowings

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Short-term funds	34,213	26,353	7,860
Bonds and notes	370,034	360,245	9,789
Other borrowings	27,685	22,737	4,948
Subordinated liabilities	2,247	2,247	0
Total	**434,179**	**411,581**	**22,598**

KfW Group's principal sources of funding were medium and long-term bonds and notes issued by KfW. Funds from these sources amounted to EUR 370.0 billion and accounted for 85% of borrowings as of 31 December 2014. The increase of EUR 9.8 billion comprises interest-rate related valuation effects from micro hedge accounting as well as changes in exchange rates. Short-term issues of commercial paper increased by EUR 8.7 billion to EUR 34.0 billion. Total short-term funds, including demand deposits and term deposits, amounted to EUR 34.2 billion. Other borrowings by KfW, in addition to promissory notes to banks and customers *(Schuldscheindarlehen)*, which decreased by EUR 0.3 billion to EUR 8.6 billion year-on-year, consisted mainly of liabilities to the Federal Republic of Germany and cash collateral received to reduce counterparty risk from the derivatives business of EUR 15.0 billion (year-end 2013: EUR 9.0 billion).

Subordinated liabilities continue to include a subordinated loan totalling EUR 2.25 billion granted by the ERP Special Fund as part of the restructuring of the ERP economic promotion programme in 2007.

The carrying amounts of derivatives with negative fair values, which were primarily used to hedge loans, increased by EUR 0.3 billion from EUR 28.2 billion due to changes in market parameters, and amounted to EUR 28.5 billion at year-end 2014.

There were only minor changes in the other liability line items in the statement of financial position.

At EUR 21.6 billion, **Equity** was above the level of 31 December 2013 of EUR 20.5 billion. As of 31 December 2014, the equity ratio was 4.4%.

Equity

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Paid-in subscribed capital	3,300	3,300	0
Capital reserve	7,197	7,197	0
of which promotional reserves from the ERP Special Fund	*5,900*	*5,900*	*0*
Reserve from the ERP Special Fund	1,191	1,191	0
Retained earnings	10,019	8,613	1,405
Fund for general banking risks	500	400	100
Revaluation reserves	–608	–188	–420
Total	**21,598**	**20,513**	**1,085**

The consolidated profit was used to increase retained earnings and strengthen the fund for general banking risks.

Subsequent events (as of 3 March 2015)

In February 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 (31 December 2014: EUR 2.25 billion), also in view of its reduced acceptance as Tier 2 capital. The agreement mainly provides for converting EUR 1.25 billion to equity by inclusion in KfW's capital reserve, and a redemption of EUR 0.6 billion, both effective from financial year 2015. The period during which capital is tied up for the remaining tranches, which ends on 31 December 2017, is unchanged. This conversion further strengthens KfW’s capital base, thus securing its promotional capacity in the long term.

Risk report

Current developments

Global economic development was largely disappointing in 2014 and it seems unlikely that momentum will accelerate in 2015 either, probably remaining at the same level as the previous year. We expect to see industrialised countries and emerging markets diverge in performance. The US economy will likely continue its positive growth trend in the coming quarters, mainly driven by an improved labour market and more robust private consumption. Monetary policy is expected to continue to support demand at the beginning of the year, with the expected rise in US interest rates during the course of 2015 carrying a certain risk for the financial markets. In Japan, economic performance is expected to be relatively subdued, given that neither monentary nor fiscal policy have much scope left for creating effective long-term impetus. The euro area faces a similar dilemma; despite a somewhat “more neutral” budgetary policy than in recent years and the ECB’s foreseeable quantitative easing, euro-area economic growth is likely to mark time in 2015. In light of forthcoming elections in Europe, new debates on the need to balance government budgets are expected to emerge. These could generate nervous sentiment on the capital markets at any time – as occurred at the beginning of the year in Greece. In some emerging market countries economic momentum is likely to decrease compared to the previous year. Although growth rates in China and India are expected to remain relatively high, macroeconomic performance in other countries is expected to be very subdued (Brazil, South Africa) or even negative (Russia). Overall, this economic outlook is overshadowed by a large number of downside risks. The geopolitical tensions between Russia and Ukraine as well as in the Middle East are creating considerable uncertainty. Despite the fact that the current low price of oil is generating opportunities for many economies, the risks faced by some crude oil-exporting countries have increased considerably. Moreover, certain misallocations on the financial markets due to current monetary policy could result in new crises at any time.

Despite stabilisation of economic parameters in some peripheral countries (Ireland, Spain), European banks’ asset quality continued to reflect diverging economic performance in Europe. Peripheral country banks, in particular, continue to hold large portfolios of non-performing loans. The sale of non-strategic assets resulting in further balance sheet reductions as well as cautious lending on the part of European banks was noticeable in the months prior to the ECB/EBA’s balance sheet and stress tests. In addition, a number of participating banks strengthened their equity through capital increases, thus improving the banks’ overall capital adequacy in 2014. The results of the balance sheet assessment, with a negative focus particularly on Italian banks, were comprehensible, and hardly came as any surprise. Refinancing of European institutions was rendered more stable through increased deposit financing in combination with asset reduction. Furthermore, peripheral banks continued to return to the capital markets. Due to considerably declining risk costs and a stabilising economic environment, US banks made a positive impression compared to the relatively weak earnings posted by European banks. However, high burdens resulted from fines levied on certain financial institutions, setting a new overall record for the US banking sector.

The European banking sector will remain structurally vulnerable in 2015 due to the further deterioration of the economic outlook. In addition, the low-interest environment as well as regulatory requirements and the costs of legal disputes will negatively affect the profitability of European banks. For this reason, restructuring in the European banking sector, combined with a further reduction in non-strategic assets (in Italy, among other countries) is likely to continue. The political uncertainty in Greece could also shift the European sovereign debt crisis back into focus, with a largely negative impact on the still fragile banks of the peripheral countries. In addition, the persisting geopolitical tensions between Russia and Ukraine are likely to have a negative effect on the banks active in those countries – primarily Austrian and French – at an increasing rate. The gradual interest rate increases expected from the US Federal Reserve represent a rise in potential risks to banking markets of emerging countries with export deficits (such as Brazil, Turkey and South Africa) due to continued capital outflows and a further depreciation of own currencies.

The German and European economies were marked by stagnation last year, which we expect to continue this year. On the whole, the performance of businesses remained stable in this environment, even if investment was cautious due to the disappointing developments in Europe and various geopolitical uncertainties. It should be noted that companies are benefitting from favourable terms due to good credit availability and lending structures that are gradually being eased. The automobile industry which is important for Germany continues to grow due to brisk demand in developing countries and the USA; Europe too seems to have bottomed out after a number of difficult years, despite increasing sector risks. The merchant shipping situation remains difficult, with the exception of the gas tanker segment.

KfW Group has been affected by the aforementioned developments due to its international promotional mandate. Overall, however, KfW's portfolio recorded a stable performance. Meanwhile, the merchant shipping crisis appears to be largely digested for the portfolio. All recognisable risks are measured using conservative standards and are taken into account in

KfW Group's new business management through systematic implementation of risk guidelines. The regularly performed calculations of risk-bearing capacity show that KfW Group can bear the risks assumed in the context of its mandate – even based on conservative stress scenarios. In 2014, 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 publication 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 expanded application of the German Banking Act was introduced. In the future, KfW Group will be obliged to apply key bank regulatory standards by analogy. The German Federal Financial Supervisory Authority and the German Central Bank *(Bundesbank)* will be responsible for supervising compliance with these bank regulatory standards. The relevant rules and regulations will enter into force in stages. The key provisions relating to risk will apply to KfW Group with effect from 1 January 2016. The Compliance department centrally coordinates fulfilment of the requirements of the German Banking Act *(Kreditwesengesetz – "KWG")*.

As part of implementing the European regulatory mechanism, KfW IPEX-Bank was included in the ECB's comprehensive assessment in 2014. The results of KfW IPEX-Bank's asset quality review were announced in writing on 11 February 2015. No balance sheet adjustments have been required. The asset quality review and the stress test demonstrated that, in view of its business model, KfW IPEX-Bank is currently adequately capitalised overall. ECB has decided not to include KfW IPEX-Bank in the institutions under the ECB's supervision.

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 bank'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 approval, operational level equity investments, funding and swap transactions, if these require committee authorisation in accordance with 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 – particularly for the remuneration paid to the heads of the Risk Controlling and Compliance functions and any employees who have a significant impact on the group's overall risk profile.

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. Below the level of the Executive Board, there are three risk committees (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) 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.

Board of Supervisory Directors

Risk and Credit Committee | Audit Committee | Presidial and Nomination Committee | Remuneration Committee

Executive Board

Credit Risk Committee | Market Price Risk Committee | Operational Risk Committee

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 Head 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 in the Credit Risk Committee. Further extended meetings, held on a quarterly basis, are also attended by representatives of the business sectors and of DEG. Internal Auditing and Compliance staff as well as the Managing Directors of KfW IPEX-Bank are granted guest status. Reports about the development of regulatory requirements, e.g., 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 the Capital Markets sector, 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 all fundamental and methodological questions relating to the management of market price and liquidity risks as well as transfer pricing. 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") by taking decisions regarding crossfunctional-KfW Group-wide measures. The committee also discusses any major or potential operational risk loss events and evaluates any bank-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

Strategy

Strategic objectives

Business strategy ‹‹‹ ››› Risk strategy

Primary objectives: Guaranteeing promotional capacity by ensuring economic and regulatory risk-bearing capacity

Processes/instruments

Internal capital adequacy assessment process (ICAAP)

Risk inventory | Reporting | Capital allocation/Budget monitoring | Stress tests

Credit risk
- Limit management system
- Risk guidelines
- Portfolio guidelines
- Internal rating models/economic capital concept
- Second vote or central voting (programme business)
- Proactive collateral management
- Early warning procedure
- Intensive support

Market price and liquidity risk
- Proprietary models for interest rate, foreign currency, credit spread and liquidity risks
- VaR capital buffer for basis spread risks
- Limiting and budgeting

Equity investment risk
- Risk management process for equity investments (operational level)
- Management of strategic equity investments
- Group risk management

OpRisk and business continuity management
- Model for determining capital requirements (pillar II)
- Risk assessments
- Risk indicators
- Loss event analyses
- Business impact analysis
- Emergency plan, Crisis team

Reputational risk
- Sustainability management
- Countries blacklist

Project risk
- Project portfolio management through project board
- Management of individual projects
- Determining capital requirements

Model development and validation processes

IRBA standards ‹‹‹ ››› Instrument strategy

Internal monitoring procedures
- Internal auditing
- Internal control system
- Compliance

To ensure risk-bearing capacity in line with KfW Group's defined risk tolerance, Risk Management formulates and regularly reviews KfW Group's risk strategy, including the risk management of significant subsidiaries. The risk strategy builds on KfW Group's basic business policy and establishes general risk principles and specific risk policy measures in line with its strategic objectives and business strategy. 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 2014 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 into account the requirements arising from extended KWG application.

The risk management approach is set out in KfW Group's risk manual. The risk manual ensures that uniform procedures are applied throughout KfW Group to identify, measure, control and monitor risk. In addition, KfW Group-wide regulations are supplemented by rules specific to each business sector. The rules and regulations laid out in the risk manual are binding for the entire KfW Group, accessible to all employees and continually updated. 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 economic and regulatory 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 Tier 1 and total capital ratios. This approach combines economically practicable capital management with the obligation to fulfil regulatory minimum 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 Sections 10 and 10a KWG in conjunction with Regulation (EU) No 575/2013 (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 economic and regulatory 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 minimum 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.

The targets for risk-bearing capacity are transferred via capital allocation in the form of economic capital budgets to individual business sectors/areas. The allocated available financial resources 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 risk appetite of KfW Group (e.g. traffic light limits). At the same time, the Executive Board establishes a centrally held capital buffer for stress cases, which serves anti-cyclical risk management. Compliance is checked quarterly and action is taken as necessary. In addition, the corresponding target figures for regulatory capital requirements are determined at KfW Group level for the business sectors/areas and their utilisation is also monitored quarterly.

In addition to KfW Group's risk-bearing capacity concept, the capital planning process monitors the medium-term development of risk-bearing capacity. Reliance on scenario-based extrapolations of economic and regulatory risk-bearing capacity 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, economic and regulatory risk-bearing capacity are also observed 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
Indicators under supervisory law

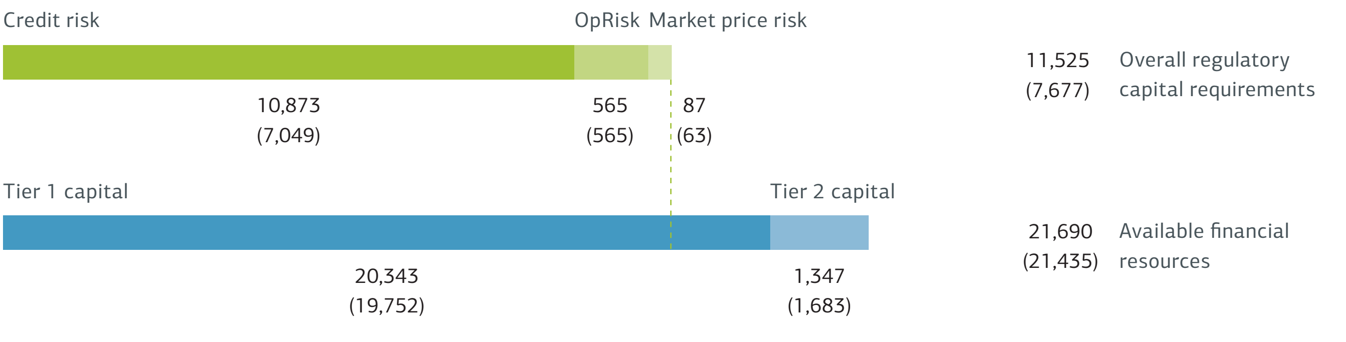
	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions
Risk position	144,062	95,956
Tier 1 capital	20,343	19,752
Regulatory capital (available financial resources)	21,690	21,435
Tier 1 capital ratio	14.1 %	20.6 %
Total capital ratio	15.1 %	22.3 %

The "risk position" indicator is the product of the total amounts of capital charges for counterparty risk, market risk and operational risk multiplied by a factor of 12.5.

KfW Group will not be subject to the KWG and/or CRR regulatory capital requirements until 1 January 2016. For internal control purposes, however, KfW Group 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 have decreased significantly in comparison with 31 December 2013. As of year-end 2014, the total capital ratio taking into account consolidated comprehensive income was 15.1 % (year-end 2013: 22.3 %), and the Tier 1 capital ratio was 14.1 % (year-end 2013: 20.6 %). The reason for the decrease is the very sharp increase in the total risk position. This is largely due to the additional burdens CRR places on risk assets as well as the shift to calculating risk assets on an IFRS basis. The decline in the capital ratio was offset by the somewhat higher level of available financial resources. Negative effects, arising primarily from the remeasurement of pension obligations, the transition to IFRS and CRR-related burdens, were overcompensated in particular by the annual profit.

Regulatory risk-bearing capacity as of 31 December 2014
EUR in millions



In brackets: figures as of 31 December 2013.

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 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 (risk-weighted assets x 8 %) is applied in calculating risk-bearing capacity if there are any open settlement exposures at the end of the month.

As a result of transitioning the calculation of risk-bearing capacity from German GAAP (HGB) to IFRS in 2014, KfW has also used economic capital to cover the **separate line item** required in macro hedge accounting for the first time. The separate line item is required to be presented on the assets side of the IFRS statement of financial position to show the cumulative adjustments to the carrying amount of the hedged item. Regulatory capital requirement is being used as economic capital requirement to cover the separate line item until specific modelling has been developed.

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 in price in a worst case scenario (defined by the solvency level) is determined for each type of market price risk using statistical models. The economic capital requirement corresponds to this potential loss of value.

The focus in 2014 was on further developing the statistical model to determine economic capital requirements for **operational risks,** in order to meet the current regulatory requirements. This model will be put into productive use by the end of 2015. Continued use of the existing model in 2014 and until the new model is implemented poses the danger of implausible fluctuations in capital requirements. To avoid this, the economic capital requirement from 2013 has been temporarily carried forward.

Project risks were taken into account in the risk bearing capacity concept for the first time in 2014. Both quantified individual risks in 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)*.

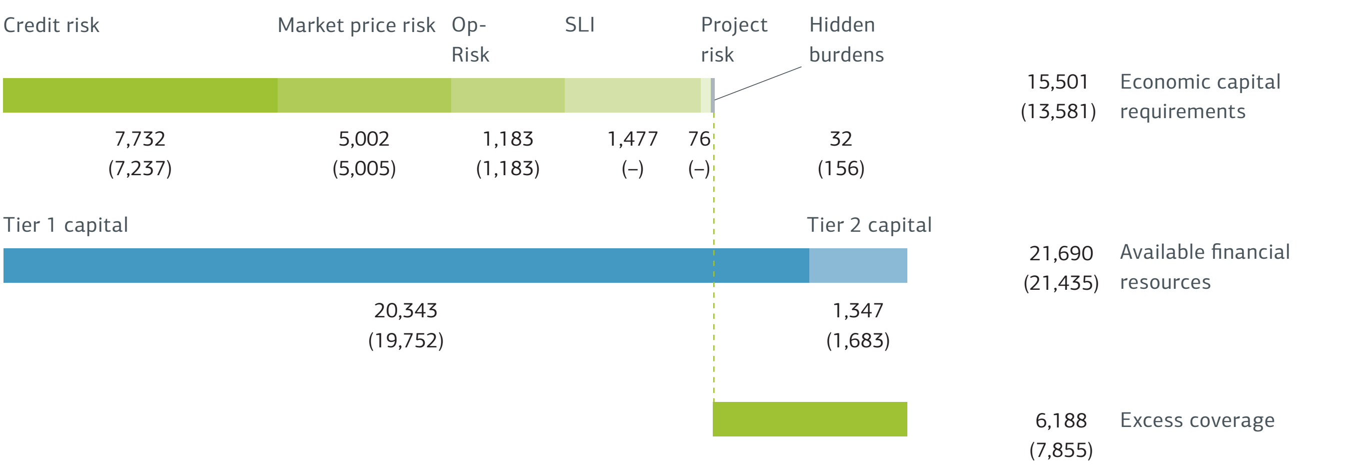
Using this method, the economic risk-bearing capacity as of 31 December 2014 satisfied a solvency level of 99.99 %. The excess coverage of the available financial resources beyond the total capital requirement as of 31 December 2014 of EUR 6,188 million decreased compared with 31 December 2013 (EUR 7,855 million). The decrease is largely due to implementation of the capital requirement for the separate line item. Moreover, the capital requirement for credit risks has increased largely due to new business in the business sector Promotion of developing and emerging countries, and higher fair values of derivatives. Furthermore, the capital requirement for project risks was measured for the first time in 2014. The capital requirement for market price risks and operational risks, in contrast, remains virtually unchanged, while hidden burdens for securities fell in 2014.

KfW Group manages **liquidity risk** by monitoring the appropriate key figures and regularly controlling the processes of 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. Material 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 works continually to refine its risk models and processes. For example, its method of calculating risk-bearing capacity was changed to IFRS in 2014. A capital buffer based on a value-at-risk procedure is now applied to measurement of basis spread risks. Project and settlement risks were also taken into account for the first time in the risk bearing capacity concept.

Economic risk-bearing capacity as of 31 December 2014

EUR in millions



In brackets: figures as of 31 December 2013.

Stress and scenario calculations

To ensure a stronger 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.

The forecast scenario provides a preview of risk-bearing capacity at the relevant year-end and includes the projected business performance, profit and other effects influencing risk-bearing capacity, such as foreseeable changes in the capital structure and methodological developments. The current forecast for 31 December 2015 shows a slight increase in the excess coverage of available financial resources over the economic capital requirement compared with 31 December 2014.

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 recession are depicted in the stress scenario. In both scenarios, KfW Group assumes an overall increase in credit risk (counterparty and migration risks). In these scenarios, a systematic development of the EUR and US dollar interest rates as well as the US dollar exchange rate is forecast in line with the economic situation. 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. Potential losses from securities prices as well as from operational and project risk further reduce available financial resources in the stress scenario.

On the basis of the analyses carried out, KfW Group assumes a reduction in excess coverage in the economic risk-bearing capacity from EUR 6.2 billion to EUR 1.7 billion in the stress scenario. Risk-bearing capacity therefore remains assured at a solvency level of 99.99 %, even under unfavourable economic conditions.

Further stress tests are carried out in addition to the economic scenarios to examine the resilience of KfW Group's risk-bearing capacity. Current potential macroeconomic dangers form the basis for the varying scenario stress tests. The 2014 tests focused on scenarios involving the Russia/Ukraine conflict and a European recession. The concentration and inverse stress tests show how concentration risks and other potential dangers materialising in unfavourable constellations 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 the domestic promotional business area, 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 small and medium-sized enterprises ("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	– 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
Exposure level	Exposure at default			
	Loss given default			
Portfolio level	Loan 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 Capital Requirements Regulation ("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 stochastically 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 *(Marktfolge)* 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. Rating instruments and procedures largely meet the minimum requirements of the prevailing regulatory standards (MaRisk/CRR).

[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.[3)] 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. All major and higher risk commitments are presented at least to the Credit Risk Committee, and if necessary, also to the Executive Board, the Credit Committee or the Board of Supervisory Directors.

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[4)] 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 workout 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 KfW's 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 business areas and the legal department.

In the event of a crisis in the banking sector, the department has to be able to act immediately both in-house and externally. The financial institution crisis plan has been refined 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 Basel II 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 of the borrower's

[3)] The special nature of KfW's promotional business is taken into account in the process.

[4)] 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.

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. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Carrying amount as equivalent for maximum risk of default	279,707	280,747	118,213	113,926	18,461	11,663
Risk provisions for lending business	160	159	1,697	1,793	0	0
Carrying amount neither past due nor impaired	279,340	280,378	116,439	111,336	18,461	11,663
Collateral provided	*179,363*	*184,571*	*31,816*	*29,439*	*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. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Carrying amount as equivalent for maximum risk of default	38,463	23,900	30,900	30,718	65,654	61,724
Risk provisions for lending business	0	0	14	22	78	111
Carrying amount neither past due nor impaired	38,463	23,900	30,690	30,494	65,500	61,560
Collateral provided	*14,530*	*6,496*	*347*	*710*	*0*	*134*

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. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Carrying amount less than 90 days past due	242	184	521	976	1	4
Carrying amount 90 days and more past due	41	65	336	439	1	1
Total	**283**	**249**	**857**	**1,415**	**2**	**5**
Collateral provided	*250*	*183*	*283*	*378*	*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. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013
Carrying amount	84	120	918	1,175	208	219	154	163
Individual impairments, provisions	*51*	*57*	*1,271*	*1,374*	*0*	*0*	*30*	*67*
Collateral provided	*11*	*22*	*535*	*549*	*5*	*6*	*0*	*0*

As of 31 December 2014, EUR 1.4 billion (net after deduction of risk provisions, year-end 2013: EUR 1.7 billion) was classified as individually impaired out of EUR 551 billion (year-end 2013: EUR 523 billion) in financial instruments outstanding. Potential losses are conservatively estimated, and individual impairment losses of EUR 1.4 billion (year-end 2013: EUR 1.5 billion) were recognised.[5)]

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 2014, risk provisions for transactions not individually impaired totalled EUR 0.6 billion (year-end 2013: 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)*.[6)] 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 2014. Deferred payments in the performing portfolio in 2014 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[7)] 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

[5)] 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.

[6)] 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.

[7)] 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.

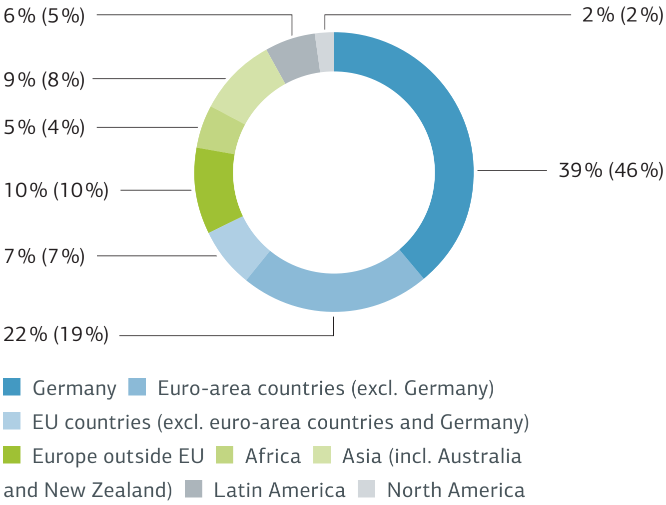
country. Risk concentrations are primarily reflected in the economic capital requirement, ensuring that high risk volumes and unfavourable probabilities of default are taken into account, along with undesirable risk correlations. The results form the main basis for managing the loan portfolio.

Regions

As of 31 December 2014, 61 % of KfW Group's loan portfolio in terms of economic capital requirements was attributable to the euro area (year-end 2013: 65 %). New business mainly in the business sector Promotion of developing and emerging countries results in a higher economic capital requirement, which mainly impacts the euro area (excluding Germany). In Germany, there have been declines in the economic capital requirement overall, primarily due to rating upgrades of two major banks in the on-lending business. As a result, the Germany segment's relative share of the overall portfolio's economic capital requirement also decreased.

Economic capital requirements by region

31 Dec. 2014 (31 Dec. 2013)

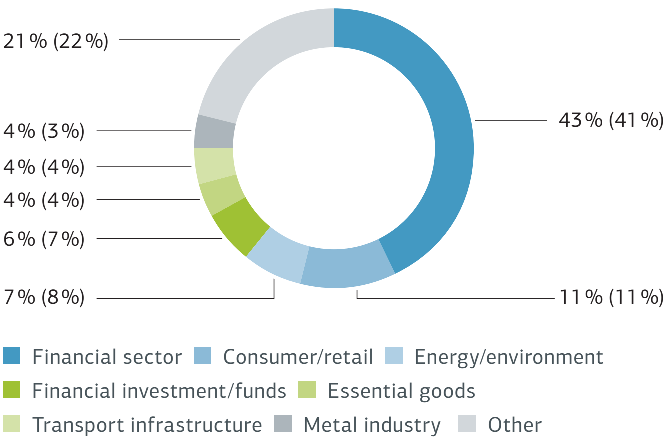


Sectors

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 that are on-lent through commercial banks. The creation of borrower units was revised in implementing the CRR requirements. This revision resulted in an increase in economic capital employed, above all in the financial sector. Consequently, the financial sector's relative share of the overall portfolio's economic capital requirement also increased.

Economic capital requirements by sector

31 Dec. 2014 (31 Dec. 2013)

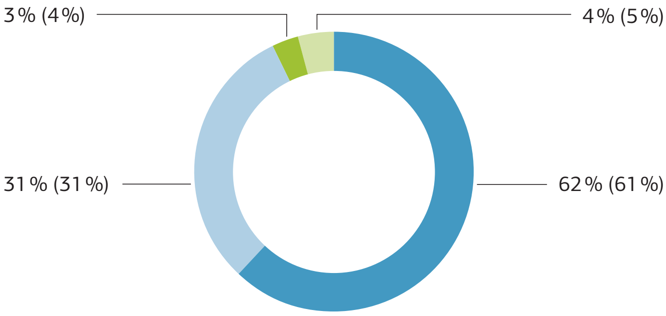


Credit quality

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 by credit quality category. On this basis, the credit quality structure was stable year-on-year. The investment grade net exposure compared with the net exposure of the overall portfolio increased slightly, whereas the default exposure fell. The average probability of default of KfW Group's loan portfolio remained almost unchanged compared with 31 December 2013. KfW Group's loan portfolio therefore continued to possess a good credit quality structure.

Credit quality by net exposure

31 Dec. 2014 (31 Dec. 2013)



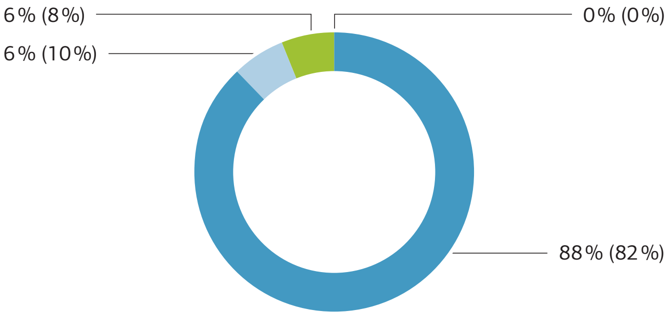
Structured products in KfW Group's portfolio

Asset-backed securities (ABS)

ABSs had a par value of around EUR 3.6 billion as of 31 December 2014. Accounting for the mark-to-market valuation of the securities reported at fair value and impairments, the portfolio had a book value (including pro rata interest) of EUR 3.5 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 nominal value)

31 Dec. 2014 (31 Dec. 2013)



Exposure based on par values

31 Dec. 2014

	CLO	RMBS	CMBS	CDO	ABS & other	Total 31 Dec. 2014	Total 31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Investment grade	587	384	45	29	2,337	3,381	3,065
Non-investment grade	11	30	15	14	–	70	80
Watch list	–	–	–	–	–	-	62
Default	92	62	–	–	–	153	206
	690	**476**	**59**	**43**	**2,337**	**3,605**	**3,413**

The portfolio volume as of 31 December 2014 increased slightly year-on-year (par value EUR 0.2 billion). Comparison of the portfolio's rating structure shows a considerable reduction in both watchlist and default holdings. The regional focus Europe has continued to improve as can be seen in the geographic breakdown of the underlying asset pool compared with 31 December 2013. 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 1.8 billion as of 31 December 2014 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 1.2 billion was primarily a result of the use of the originator banks' call options. There are currently no immediate loss expectations for KfW Group.

Exposure in European peripheral countries

The group's exposure in European peripheral countries (Greece, Spain, Italy, Ireland and Portugal) is stable and well collateralised compared with the previous year. The largest item was the loan of approximately EUR 15.2 billion for Greece mandated by the Federal Government in 2010 (which benefits from a federal guarantee). On behalf of the Federal Government, KfW Group developed a promotional structure for Greek SMEs; via the company "IfG – Greek SME Finance" (IfG) established for that purpose, Greece and Germany (the latter acting via KfW Group) each offered EUR 100 million in debt capital for promotion. The funds were paid out in mid-January 2015. These funds are to be issued by IfG via Greek on-lending commercial banks in the form of loans to small and medium-sized enterprises in Greece.
KfW Group's exposure is completely hedged by a guarantee of the German Federal Government.
Additionally, the Italian promotional bank Cassa depositi e prestiti (CDP) was funded in 2014 with a global loan of EUR 0.5 billion, which contributed to promotion for SMEs and financing for energy-efficient infrastructure in Italy. In internal controlling, these exposures are subject to strict and regular monitoring. In the process of steering new business activities, business with or in European peripheral countries is sometimes subject to higher collateral requirements. In individual cases there is a categorical freeze on new business. In addition, internal ratings for individual euro countries and the banks based in such countries were critically assessed, with some adjustments made during the year. Because KfW Group's risk assessment is based on its own internal ratings, changes to the external ratings of countries and banks based in these countries by independent rating agencies have no immediate impact on KfW Group's risk management.

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 US dollar currency areas,
- exchange rates (currency risk),
- basis spreads (basis spread risk) and
- issuer-related premiums on interest rates for securities (credit spread risk).

In total, market price risk within KfW Group required EUR 5,002 million in economic capital as of 31 December 2014. This is EUR 3 million less than the previous year. KfW Group market price risk is broken down as follows:

Total economic capital for market price risk

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions
Interest rate risk	3,458	3,315
Currency risk	528	499
Basis spread risk	795	700
Credit spread risk	221	491
Market price risk	**5,002**	**5,005**

Interest rate risk

KfW Group assumes limited interest rate risk in order to take advantage of long-term opportunities for returns. Additionally, interest rate risk arises from the credit terms used in KfW Group's domestic lending business, which include unscheduled repayment options. KfW Group takes this into account in its risk management by including the estimated future volume of unscheduled repayments in its funding strategy.

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. These have been adapted to current supervisory requirements[8)]. 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 risen by EUR 143 million as of 31 December 2014.

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 period 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 29 million as of 31 December 2014.

Basis spread risk

Basis spread risk includes tenor and foreign exchange basis spread risks. These risks are taken into account in risk-bearing capacity through a capital buffer. This calculation is an add-on to the other market price risks. The methodology was investigated and further developed in 2014. As a consequence, an increase in the capital requirement for tenor and basis spread risk was undertaken as of 31 December 2014.

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 illiquidity of these securities. The decrease in the economic capital requirement for credit spread risk as of 31 December 2014 by EUR 270 million to EUR 221 million is largely due to the elimination of extreme spread widening due to the euro debt crisis in the historical time horizon observed in the risk model.

LIQUIDITY RISK

Liquidity risk is the risk of a company not being able to make payments in a timely manner when due. KfW Group differentiates between institutional liquidity risk (the risk of not being able to meet payment obligations) and market liquidity risk (the risk that the required funds are only available at costs higher than interest rate in line with the risks involved).

The primary objective of liquidity management is to ensure that KfW Group is at all times capable of meeting its payment obligations. 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, the liquidity risk indicator under regulatory law and the utilisation threshold under the KfW Law.

[8)] Regulatory parallel upward (or downward) shift in the yield curve by 200 basis points, with the less favourable result in each case being reported.

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 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.

Contractual payment obligations arising from financial instruments by maturity range as of 31 December 2013[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	9,253	2,593	3,278	3,501	14,677	33,301
Certificated liabilities	17,122	28,161	47,598	204,074	121,490	418,444
Net liabilities under derivative financial instruments	–344	197	–338	492	–9,796	–9,789
thereof Liabilities under derivative financial instruments	*13,959*	*23,230*	*35,190*	*136,326*	*79,297*	*288,003*
Subordinated liabilities	0	0	77	2,406	0	2,483
Liabilities under on-balance sheet financial instruments	**26,030**	**30,951**	**50,616**	**210,472**	**126,371**	**444,440**
Contingent liabilities	6,001	0	0	0	0	6,001
Irrevocable loan commitments	55,723	0	0	0	0	55,723
Liabilities under off-balance sheet financial instruments	**61,724**	**0**	**0**	**0**	**0**	**61,724**
Liabilities under financial instruments	**87,754**	**30,951**	**50,616**	**210,472**	**126,371**	**506,164**

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 worst case, three months.

The scenario assumptions are validated on an annual basis. Changes to methodology in 2014 included factoring in unexpected draws on credit lines, liquidity needs-based distribution of potentially acceptable commercial papers, and an adjustment to the modelling of outflows from CSA (Credit Support Annex) cash in the liquidity risk model.

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 2014:

KfW liquidity risk indicators as of 31 December 2014

	Indicator
Normal case	0.28
Stress case	0.50
Worst case	0.25
Worst case (institution-specific)	0.56

The internal liquidity risk indicators remained considerably below the maximum limit of 1 throughout 2014.

Current funding environment

International money and capital market conditions improved considerably in financial year 2014. The ECB key rate cuts combined with further monetary policy measures and higher overall volatility served to stimulate the markets. Expansionary monetary policy by central banks and the high liquidity on financial markets led to a further decrease in yield premiums across all asset classes of many issuers.

In order to fund its promotional business in the long term, KfW Group issued 250 bonds on the international capital markets in a total of 13 different currencies in 2014, thus raising funds with a value of EUR 57.4 billion (2013: EUR 66.4 billion). In short-term funding on the money market, it was possible to maintain the issue volume of commercial paper due to high demand for safe investments with German sovereign risk in 2014. As of 31 December 2014, KfW Group's outstanding volume in the US commercial paper programme was USD 7.6 billion (year-end 2013: USD 7.8 billion) and EUR 25.2 billion in the multi-currency commercial paper programme (year-end 2013: EUR 19.9 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 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 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 illegal infringements. 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. Reputational and strategic risks are not included in KfW Group's definition of operational risk. To the extent that reputational risk is based on operational risk, the reputational risk is taken into account in KfW Group's risk management procedures for operational risk, in the risk assessment, in the gathering of event data and in the analysis of outsourcing risk.

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 in all areas and across selected process chains. 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 increased potential losses in the risk assessments carried out are reported to the area and department head once the data has 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. Each business area reviews implementation of additional risk-mitigating measures (e.g. ICS controls) as part of the risk assessment process.

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)

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 specified via 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 credit risk. In terms of reporting requirements, equity investment portfolio risk is reported separately.

Strategic equity investments

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 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"). Individual equity investment strategies and specific 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 as necessary. In addition, KfW Group is, as a rule, represented at executive board level in the supervisory bodies of companies in which it has a significant holding.

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 economic capital budget, while representatives of the subsidiaries are included in KfW Group's risk committees. Moreover, risk monitoring for DEG is performed on a stand-alone basis.

This monitoring includes regular reporting to the Executive Board as part of the monthly internal KfW Group risk report. All relevant risk control responsibilities for IPEX-Bank are performed in the group.

Reputational risk
Reputational risk is the risk that the perception of KfW 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 Group. 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 using a number of decentralised approaches. Examples include 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. New activities, such as the new product process and outsourcing, are also to be examined with a view to potential reputational risk.
In parallel to this, as part of risk identification, the central reputational risk control function coordinates qualitative reputational risk assessment and creates a risk profile outlining KfW Group's greatest reputational risks. In addition, regular reporting of reputational risk events is undertaken.

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 2014 audited the decentralised risk management processes and central aspects of risk management which were relevant bank-wide. Focal points included analyses of market and credit risk in support of major projects, as well as assessing the implementation of significant regulatory changes. Regarding decentralised risk management processes, the audit focused on equity finance processes in the domestic promotional business, among other areas.

As in previous years, Internal Auditing also monitored the continued development of risk measurement procedures in 2014 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 KfW 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 and that are continually updated to reflect the latest legal requirements and market conditions.

Regular training sessions on compliance and anti-money laundering are held for KfW Group employees. E-learning programmes are available in addition to classroom seminars.

Internal control system (ICS)

The aim of KfW Group's internal control system ("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 supervisory) requirements[9)], in particular those set forth in KWG and MaRisk, and the market standard COSO model[10)].

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 and 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.

A written framework forms 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 process documentation, for controls and for an organisational manual.

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.

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 effectiveness and adequacy 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 areas and risk strategies.

The Executive Board of KfW holds overall responsibility for the internal control system at KfW. 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 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.

9) 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.
10) Committee of Sponsoring Organizations of the Treadway Commission, www.coso.org

Forecast and opportunity report

General economic environment and development trends

Overall, the trend in the global economy in 2014 was disappointing. Momentum in major countries and economic areas was considerably less than expected at the beginning of the year. The assumption is that the global growth rate will also remain unsatisfactory in 2015, increasing slightly at best.

While the group of **industrialised countries** continues to grow at a slower rate than developing and emerging market countries, it still provides a strong impetus. This is especially true for the USA, whose economy is growing comparatively fast, enabling other countries to benefit from its growth. Overall, performance was widely divergent among the industrialised countries. The economies of Japan and the euro area continue to remain stagnant in 2015, with many countries performing below their potential.

Wide disparity in performance also continues to mark **developing and emerging market countries.** Russia and Brazil are in the throes of a veritable crisis; in China, the times of double-digit growth are clearly over. India and Indonesia have sustained solid growth.

The price of oil, which has tumbled since mid-2014, will continue to boost the economies of oil-importing countries in 2015. The industrialised countries will continue to work through their post-crisis reform agenda – a process that will nonetheless require stamina. Particular responsibility for the world economy in 2015 will rest with the central banks of the major industrialised countries: not only must their monetary decisions be suitable for the problem at hand, but their timing is critical as well. Geopolitical risks remain serious, and their development as well as their impact on the global economy are almost incalculable.

In the member states of the **European Economic and Monetary Union** ("EMU"), economic development will likely remain weak in 2015 as well. Private consumption will benefit from a slight decline in the unemployment rate and lower energy prices. The net export of goods and services will also contribute to growth, not least as favourable exchange rates help exports. Yet the economy is not expected to gain much momentum. Fiscal policy remains pro-cyclical; measures to reduce unemployment are progressing at a very slow pace, with investment activity by companies further impeded by the uncertain setting. Overall, KfW forecasts annual growth in price-adjusted GDP of around 1 % in EMU countries in 2015 in comparison with 2014. The euro area remains susceptible to shocks due to its fragile situation.

The **German economy** was in a less favourable economic state at the beginning of 2015 compared with a year earlier. Economic momentum has practically come to a halt compared with most of the previous year. Business sentiment has deteriorated noticeably because of the many geopolitical uncertainties, but primarily owing to the repeatedly unfulfilled expectations of a euro-area upswing. Expectations for business were up at the start of the year. Real economic momentum will, however, likely pick up only gradually, despite impetus from the fall in oil prices and the euro's depreciation – assuming that the crisis in Russia can be contained in the future and the euro area gets back on the road to growth. The difficult international situation – including renewed potential unsettling political discussions in the euro area following elections in Greece – is not only hampering growth in German exports but has also been keeping many companies from making investments for the time being. The labour market, private consumption and housing construction, in contrast, are aiding the economy. All in all, German GDP in 2015 will likely grow at a slower rate than in 2014. KfW forecasts real growth of around one per cent on the basis of data available at the beginning of the year. Yet this forecast is clouded with uncertainty, as emphasised by the wide range of publicly available economic forecasts for 2015. These range from less than one to around two and a half per cent.

The major central banks are expected to continue to pursue an expansionary **monetary policy** in 2015. The European Central Bank ("ECB") expanded its stimulus programme further at the beginning of the year and resolved to increase its asset buyback programme. This will include the future purchase of securities from private and public issuers totalling EUR 60 billion each month. The ECB is expected to continue in expansionary mode, in an economic environment characterised by moderate economic growth and very low inflation. The USA, in contrast, faces a key rate reversal. The US Federal Reserve is expected to undertake this with great caution, raising key rates only moderately up to the end of 2015. Overall, the structural low-interest environment will continue. For the euro area in particular, there is very little potential for raising interest rates.

Risk outlook – Risk situation and risk-bearing capacity

The **industrialised countries** as a group are showing heterogeneous economic growth at present. While economic growth in the euro area and Japan remains weak, relatively positive production increases have been recorded in the USA and the UK. Although the euro crisis played a subordinate role in the financial markets in 2014, the possibility should not be ruled out that the crisis may be rekindled as a result of political risks and ongoing major structural challenges in some member countries. Many **emerging market countries** are now struggling with a considerable cooling-off of growth (including Brazil and South Africa). In Russia, in particular, the economic outlook is very negative, magnified by sanctions issued by the West and the declining price of oil. In addition, there is the risk that geopolitical tensions or new unrest in the financial markets may trigger a considerable setback. Accordingly, the risks for global economic activity remain high.

The European **banking sector** will remain structurally vulnerable in 2015 owing to the further weakening of economic prospects. In addition, the low-interest environment, regulatory requirements and the costs of legal disputes will negatively affect the profitability of European banks. For this reason, restructuring in the European banking sector, combined with a further reduction in non-strategic assets (in Italy, among other countries) is likely to continue. Moreover, the discussions triggered by Greece's new government on debt restructuring and a halt to the austerity and reform policy may also shift the European sovereign debt crisis back into focus and have a largely negative impact on the still fragile banks of the peripheral countries. In addition, the persisting geopolitical tensions between Russia and Ukraine are likely to have an increasingly negative effect on the banks active in those countries – primarily Austrian and French banks. Under the "Juncker Plan", the European Commission has developed a proposal for a European Fund for Strategic Investments (EFSI) established with the European Investment Bank (EIB). The European Commission and the EIB will provide a total of EUR 21 billion in risk hedging for the fund. At EIB level and through involvement of further investors, this is supposed to permit additional investments in infrastructure and SME promotion in a total amount of approximately EUR 315 billion over a period of three years. Germany and KfW will not be participating in the EFSI with own funds. However, in consultation with the Federal Government, KfW has promised to fund investments in Europe (project financing, global loans, securitisations) of up to EUR 8 billion over the next three years if the hedging instruments made available under the EFSI are also made available to KfW in a suitable manner and, accordingly, such investments would not entail an increased risk profile for KfW. Negotiations between the European Council, Commission and Parliament regarding the precise structure of the EFSI, and thus also access for national promotional banks (like KfW) to its hedging instruments, are still underway. Accordingly, it is not yet possible to specify which investments in what amount KfW will in fact offer in connection with the Juncker Plan.The gradual interest rate increases expected from the US Federal Reserve heighten the potential risks to banking markets of emerging countries with export deficits (such as Brazil, Turkey and South Africa) due to continued capital outflows and the further depreciation of the currencies of those countries.

The German **corporate sector** is expected initially to see further stagnation and investment reluctance in 2015. Owing to a very favourable credit supply, companies are likely to continue to benefit from advantageous loan terms and relaxed lending structures. Risks are increasing in particular in the automotive industry, which is crucial to Germany, and which benefits from strong demand in developing countries and the USA as well as a stabilising situation in Europe. The merchant shipping situation remains difficult, with the exception of the gas tanker segment.

Although the German **private equity market** is on a positive footing, it has recently exhibited a declining trend. The persisting low-interest environment and the increasing propensity of foreign investors in German companies could boost investment in this asset class in the future. Follow-on financing in the early growth phase, however, will continue to be a weakness in the area of venture capital. The overall market outlook for 2015 is positive as well; however, it remains volatile in view of the potential rekindling of the euro crisis.
Compared with the previous year, higher economic growth is expected in 2015 for most of the major countries in which KfW subsidiary DEG invests. In view of the monetary policy changes in the USA, high rates of inflation in some of these countries and in light of the mainly political risks that have increased in some cases, some of these countries' currencies are expected to weaken by the end of 2015.

The European **securitisation market** is likely to be influenced by the ECB's purchase programme for securitisations in 2015. Yet strong demand from the ECB will run up against an invariably limited supply, thus resulting in lower yields. This will lead to higher market prices for KfW's existing ABS investments but will also increase the pressure on returns from new investments. Moreover, the ECB as a major purchaser will reduce the available investment volume for other investors.

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

As part of KfW's assessment of its risk-bearing capacity for 2015, forecasts for **KfW Group's tier 1 and total capital ratios** demonstrate that KfW remains well capitalised. The capital ratios are expected to remain considerably above the legally required minimum levels in 2015 as well. Stable overall developments are anticipated for the group's economic risk-bearing capacity (99.99 % solvency level) in 2015. Potential changes in economic, political and legal conditions may have a significant impact on capital ratios and economic risk-bearing capacity. There is thus considerable uncertainty regarding the forecast for 2015.

2014 saw a stable **liquidity situation** and key liquidity risk indicators within the defined limits at all times. An adjustment to the planned funding volume was made in the second half of 2014. This slightly lower target figure was also used for 2015. No significant changes in the liquidity risk situation are forecast for 2015 owing to the unchanged refinancing situation, a slightly lower forecast again for the volume of new business and a constantly high expected volume of unscheduled repayments.

New business projections

Overview

The planned **new business volume** of EUR 69.5 billion for 2015 is slightly below the 2014 figure (EUR 74.1 billion). A negligible decrease in promotional business volume is forecast for both German and foreign business sectors. To implement KfW Group's strategic objectives, the plans for the group's business sectors contain measures with a strategic focus on promotional quality and an orientation of business activities towards the key areas of "climate change and environment", "globalisation and technical progress" and "demographic change". The portion of new promotional business volume dedicated to climate and environmental protection financing is planned to be 36%, thereby slightly exceeding the strategic objective requirement of approximately 35%. At 45%, the share of planned financing for small and medium-sized enterprises ("SMEs") in domestic promotional business (the SME ratio) is expected to be within the range of the target level set in the strategic objectives (approximately 50%).

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 promotional 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 will also remain the primary provider to SMEs in the future. It makes an important contribution to securing and creating jobs through the provision of low-interest, long-term financing for corporate investments and start-ups. Through innovation financing, it also strengthens the SME sector's flexibility in global competition and strongly promotes environmental and climate protection projects. For 2015, Mittelstandsbank expects a new promotional business volume of EUR 20.0 billion for its promotional areas.

The demand for general corporate financing from KfW is closely tied to economic trends. Mittelstandsbank thus continues to anticipate subdued demand for loans by companies and self-employed persons in view of uncertain growth prospects. The business sector does not see any impetus for increased demand in start-up financing either. In the area of innovation financing, in contrast, Mittelstandsbank anticipates demand at a similarly high level to 2014. The financing offering in this area was further strengthened by the *KfW-Unternehmerkredit Plus* entrepreneur loan introduced in December 2014.

Financing for environmental and climate protection financing depends on the prevailing legal conditions. This is particularly the case for investments in renewable energy (i.e. gradual decline in the feed-in tariffs). The new conditions are set out in the reform of the German Renewable Energy Act *(Erneuerbare-Energien-Gesetz)*, which came into force on 1 August 2014. Mittelstandsbank expects that the expansion objectives defined therein will be achieved and the promotional business volume in the area of renewable energy (electricity) will remain constant in the next few years. Additionally, Mittelstandsbank anticipates increased demand for financing offshore wind energy in the German territory of the Baltic Sea and the North Sea. The business sector continues to see major potential in energy efficiency measures.

The persisting low interest rates present a challenge. A further decline in interest rates in the capital markets would, all other things being equal, make it increasingly difficult to set terms and maintain the relative advantages of promotional loans through afforded by interest rate reductions.

Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) continues to focus its promotional activities on the two megatrends of "climate change and environmental protection" and "demographic development". 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 the promotional institutions of the federal states *(Landesförderinstitute)*. Four major factors contribute to ongoing high demand in the medium term in our private client business:

1. Climate change, the energy transition and rising energy costs drive up demand in the housing programmes for "Energy-efficient Construction and Refurbishment".
2. The persisting low interest rate favours investments in residential properties.
3. Advancing demographic change will result in further investment requirements in housing.
4. The need to raise the level of education and alleviate the shortage of education professionals, moreover, has resulted in a continued need for promotional loans geared towards educational programmes for primary and secondary school pupils, university students and those in professional training.

With respect to promotional loans to municipalities, their investment opportunities are primarily characterised by the increasing diversification of their budget and debt situation. The funding situation of partner banks meanwhile has improved in individual financing with financing partners in Germany and Europe as well as general refinancing of promotional institutions of the federal states. The "Energy-efficient Construction and Refurbishment" programmes, in particular, position KfW as the central promoter of environmental protection for private clients and the setter of standards for energy efficiency in residential buildings. In 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 environmental and climate protection and consequently the promotion of energy efficiency and energy-saving. The business sector pursues the strategic aim of “demographic development” within the framework of promotional activities through programmes to improve accessibility in existing properties and public space, as well as through reliable and customer-focused financing offerings for housing and education. As a financing partner of 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 the energy transition. In general financing, the aim is to maintain the business volume at its current level despite the improved refinancing situation of the promotional institutions of the federal states. The business sector’s traditional domestic promotional offerings are complemented with capital market-related products (e.g. the SME Collateralized Bond), as well as global loans for lease financing and European SME and energy efficiency financing.

For 2015, Kommunal- und Privatkundenbank/Kreditinstitute expects a promotional business volume of EUR 26.7 billion.

Capital markets
The debate about the future role of increased capital market oriented financing in the real economy, and in the SME sector in particular, gained momentum in 2014. The focus of this SME financing is on the instrument of securitisation. Through bundling receivables from SMEs, this instrument gives smaller enterprises access to the capital markets and financing.

Through investing in the securitisation of SME receivables, the business sector **Capital markets** makes a major contribution to KfW’s capital market oriented promotion of SMEs. Current assessment is under way on expanding these activities in Europe. For 2015, the business sector Capital markets expects a new business volume of EUR 0.8 billion.

International business
The objective of the **Export and project finance** business sector continues to be to strengthen its position as a specialist financier of, and responsible partner to, the German and European economies. The economy in this business sector’s key German and European markets has experienced moderate growth, while showing weaker trends in some of the relevant developing and emerging market countries (e.g. Brazil). The current crises, particularly in Russia, have meanwhile led to a reluctance to invest on the part of customers. Overall, there is still sufficient potential for German and European exporters and enterprises that invest in their competitiveness, which leads to opportunities for the business sector.
The Export and project finance business sector is aimed at sustainably supporting the German and European economy with project and export financing to maintain and increase competitiveness and internationalisation, as well as increasing its contribution to the group result. The business sector aims towards the continuous expansion of its business volume (organic growth) to achieve its two strategic objectives. Sales activities in all regions will continue to be intensified to expand its market position; selective strengthening will also be undertaken for representative offices abroad. Targeted measures are to be undertaken to enhance structuring expertise, to focus product consultation on the Export Credit Agencies (ECA) business and to ensure that more tasks are performed as a modelling agent. Above all, these measures serve to address the challenges faced in the “globalisation and technical progress” megatrend. For 2015, the Export and project finance business sector expects a new business volume of EUR 14.2 billion.

The **Promotion of developing and transition countries** business sector encompasses the business activities of KfW Development Bank and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment and Development Company, “DEG”).

The market environment of **KfW Development Bank** will remain highly complex. A distinction can be seen here between partner countries as well as a shift in political, economic and strategic weightings from industrialised to developing and emerging market countries. A growing number of players (emerging market countries, government officials in the lender countries, private players, multilateral funds) and additional financing opportunities (including low interest rates on international capital markets, creation of a BRICS (Brazil, Russia, India, China, South Africa) development bank, corporate foundations, foreign direct investments, remittances by migrants) increase the competition.
KfW Development Bank will continue to be positioned with its comparative advantage as part of the largest German promotional bank. This includes securing and expanding the relevance of KfW Development Bank and its instruments for the Federal Government and increasing its competitiveness. Further expansion of new commitments in development and promotional loans as well as the development of further promotional solutions for fragile countries play an important role here. Support of the German positioning in the new United Nations (UN) post-2015 development agenda and the Official Development Assistance (ODA) reform are also key.
KfW Development Bank will continue to position itself as the main implementer of the Federal Government’s environmental and climate financing, in order to ensure relevance and legitimisation for the government beyond traditional, poverty-focused development cooperation, to diversify the business sector and to exploit growth potential, particularly in emerging market countries. Measures include the expansion of climate financing in the reduction of and adaptation to climate change. Other goals include supporting the reshaping of the international climate finance architecture and development of innovative promotional approaches. Efforts continue to intensify the cooperation with the European Commission. The focus here is on developing a collateralisation instrument, collaboration on the European Union (EU) blending platform and designing the blending facilities. For 2015, KfW Development Bank expects a commitment volume of EUR 6.3 billion.

Apart from the “climate change and environment” megatrend, the main trend affecting **DEG’s** business is globalisation, especially the changing role of developing and emerging market countries. In many developing and emerging market countries, there is, however, a need for structural reform in order to increase the potential for sustainable growth (e.g. in Latin America). Yet at the same time, numerous conflicts are severely limiting activity in some regions. The current regional outlook for Asia is positive, as it is for Africa, although significant effects are anticipated in some regions as a result of the Ebola outbreak. Demand for development financing in these markets remains high and significantly exceeds supply. However, as the leading European development financier, DEG must pursue further innovative development of its business model. Bilateral and multilateral development financing institutions are developing regionally and expanding their product range. Socially responsible investors (SRIs) are becoming increasingly involved in DEG's markets. In order to establish its role as a promoter of the private economy for the long term, DEG focuses on differentiation and offers added-value-creating solutions in addition to financing. SME promotion and risk capital financing continue to form DEG's strategic foundation. As the sole risk capital provider in KfW's foreign business, DEG offers its customers mezzanine capital and equity in this context. DEG directly and indirectly complements financing of SMEs through targeted advisory services as well. In financing renewable and efficient energy providers and improving the climate and environmental quality of their projects, DEG also reinforces its position as a sustainable promoter of climate and environmental protection. As a pioneer investor, DEG is active in markets relevant to development policy with high growth potential and is further expanding its activities in Africa and other future markets, such as in the International Development Association (IDA) group and post-conflict countries. For financial year 2015, DEG expects a new promotional business volume of EUR 1.5 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 2015, taking into account market conditions and strategic requirements of the Federal Government.

Funding projections

KfW is one of the most active and largest bond issuers in the world. The combination of top-grade credit quality and a diversified and reliable funding strategy means that KfW enjoys an excellent reputation in the international capital markets. KfW seeks to maintain this position with great care and responsibility. KfW anticipates a high **funding volume** over the next two years. In 2015, KfW expects a funding volume comparable to the 2014 level of between EUR 55 billion and EUR 60 billion.
With the explicit, direct guarantee of the German Federal Government, KfW is well positioned on the capital market. Its reliable and forward-looking issuing policy has been very well received by investors around the world. KfW's funding will thus remain on a solid foundation.

In addition to public bonds and private placements, highly liquid benchmark bonds denominated in euros and US dollars will continue to represent the most important pillars of KfW's funding in the future. The wide range of products in the issuing business will continue to be focussed on investors' needs. In view of the persisting low rate of interest, KfW expects that the share of foreign currencies in the total funding volume will continue to increase in the future. Moreover, KfW expects the Chinese renminbi's importance as a global currency to increase.
KfW plans to expand its green bonds offering in 2015. New currencies, such as the Australian dollar and British pound, and new products such as private placements, are to be offered in addition to issues in the core currencies of the euro and US dollar.

Earnings projections

In its current **earnings projections for the group**, KfW expects to achieve consolidated profit (before IFRS effects from hedging) of just under EUR 1 billion in financial year 2015 based on anticipated macroeconomic conditions. The expected result is thus at the lower end of the strategic objectives range. Anticipated contributions from Net interest income and Net commission income (in each case, before promotional activities) 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 interest rate margins from the lending business that are slightly higher than in 2014 are offset by declining results from interest rate and liquidity maturity transformation. Further negative effects on earnings result from the noticeable increase in administrative expense (before promotional activities) compared with 2014. This is largely due to cost increases from modernisation and regulation measures; otherwise, barely any increases in costs are anticipated beyond those of personnel costs associated with collective agreements. While current efficiency projects are having a dampening effect on costs, they cannot fully offset the cost increase planned for 2015. Overall, this will result in a significant increase in the expected cost/income ratio (CIR) before promotional activities. The risk provisions for lending business, which are expected to be higher than 2014 based on projected standard risk costs, will have a negative effect on earnings. An increase is expected in planned promotional activities compared with 2014, in particular in Mittelstandsbank.

The KfW business model is oriented towards the medium to long term; income from the lending business (interest rate margins and Net commission income) in particular is very stable. **Opportunities and risks** for consolidated profit may arise in particular from differences between actual and forecast interest rate movements, from risk provisions that deviate from those planned as well as from temporary effects on results arising from the valuation of economically effective hedges (IFRS-related effects on results). The latter have no economic basis and therefore are not explicitly included in KfW's planning.

The interest rate on which the earnings forecast is based is expected to remain at a low rate initially and rise slightly towards the end of 2015. Should interest rates increase more strongly than expected, then this could negatively affect Net interest income as a result of maturity transformation. However, it may be assumed that in an economic environment where interest rates increase significantly, expenses for risk provisioning tend to be less than standard risk costs, which would at least partially compensate the effects on earnings. Should interest rates not rise at the end of 2015 or fall further, this would have a favourable effect in the short term with respect to maturity transformation and earnings due to a rise in unscheduled repayments. However, in this scenario only, considerably lower reinvestment interest rates from the cumulatively very high unscheduled repayments of previous years would be realisable, with negative effects on Net interest income, so negative effects on Net interest income would be expected in the medium term.

HR strategy/development of workforce

Further savings in personnel requirements are expected in 2015 due to KfW's current projects in modernisation, professionalisation, and increased efficiency. These will be implemented through a reduction in external workers, natural staff turnover and by the necessary transfer of employees within the company. These savings will be offset by a moderate increase in personnel due to regulatory requirements.

KfW's **personnel development** with its core function of professional and personal qualification of all employees also plays an important role. This is supported by a comprehensive programme of seminars, language courses, workshops and individual departmental and team training courses, as well as practical observation training and job rotation, offered both in-house and externally. A new skills model for the selection and development of managers was developed, and established instruments like shadowing, assessment of potential and mentoring 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.

»» Consolidated financial statements

Consolidated statement of comprehensive income

Income statement

	Notes	2014	2013	Change
		EUR in millions	EUR in millions	EUR in millions
Interest income	(27)	10,851	11,647	–796
Interest expense	(27)	8,428	9,234	–806
Net interest income		**2,423**	**2,413**	**10**
Risk provisions for lending business	(14), (28)	–143	–311	168
Net interest income after risk provisions		**2,281**	**2,102**	**178**
Commission income	(29)	384	362	21
Commission expense	(29)	76	87	–11
Net commission income		**307**	**275**	**32**
Net gains/losses from hedge accounting	(9), (30)	173	162	11
Net gains/losses from other financial instruments at fair value through profit or loss	(10), (11), (31)	–104	–25	–80
Net gains/losses from securities and investments	(15), (32)	–3	12	–15
Net gains/losses from investments accounted for using the equity method	(4), (33)	7	2	5
Administrative expense	(34)	1,072	984	88
Net other operating income	(35)	20	–210	230
Profit/loss from operating activities		**1,609**	**1,336**	**274**
Taxes on income	(19), (36)	95	63	32
Consolidated profit		**1,514**	**1,273**	**242**

Consolidated statement of comprehensive income

	Notes	2014	2013	Change
		EUR in millions	EUR in millions	EUR in millions
Consolidated profit		**1,514**	**1,273**	**242**
Amounts reclassifiable to the income statement		**65**	**42**	**23**
Other comprehensive income from financial instruments	(15), (37)	55	38	17
Other comprehensive income from deferred taxes on financial instruments	(19), (37)	0	2	–2
Other comprehensive income from investments accounted for using the equity method	(5), (37)	10	3	7
Amounts not reclassified to the income statement.		**–485**	**–43**	**–442**
Other comprehensive income from defined-benefit plan pension commitments	(21)	–506	–42	–464
Other comprehensive income from deferred taxes on defined-benefit plan pension commitments	(19)	21	–1	22
Other comprehensive income, total		**–420**	**–1**	**–420**
Consolidated comprehensive income		**1,094**	**1,272**	**–178**

Other comprehensive income comprises amounts recognised directly in equity under Revaluation reserves. These amounts include income and expenses from financial instruments classified as *available-for-sale financial assets*, changes in actuarial gains and losses for defined-benefit plan pension commitments, and changes in deferred taxes reported depending on the underlying transaction.

Presentation of reclassification amounts included in the income statement

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Reclassification amounts relating to financial instruments	22	31	–9
Reclassification amounts relating to deferred taxes on financial instruments	0	0	0
Reclassification amounts relating to investments accounted for using the equity method	10	0	10
Total	**32**	**31**	**1**

The reclassification amounts detailed in the table above represent income and expenses which were accounted for through profit or loss during the reporting period and which were previously recognised directly in equity in the Revaluation reserves. They also include amortisation of Revaluation reserves related to the reclassification of Securities and investments from the measurement category *available-for-sale financial assets* to the *loans and receivables* measurement category. Income recognised in the income statement is reported with a negative sign preceding the amount and expenses with a positive sign.

Consolidated statement of financial position

Assets

	Notes	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Cash reserves	(40)	786	1,360	–574
Loans and advances to banks	(8), (13), (14), (41)	279,867	280,906	–1,039
Loans and advances to customers	(8), (13), (14), (42)	119,910	115,719	4,191
Risk provisions for lending business	(14), (43)	–1,857	–1,952	95
Value adjustments from macro fair value hedge accounting	(9), (44)	18,461	11,663	6,797
Derivatives used for hedge accounting	(9), (45)	29,569	17,140	12,429
Other derivatives	(9), (10), (11), (46)	8,894	6,760	2,134
Securities and investments	(15), (16), (47)	30,722	30,569	153
Investments accounted for using the equity method	(5), (48)	178	149	29
Property, plant and equipment	(17), (49)	912	931	–19
Intangible assets	(18), (50)	158	131	26
Income tax assets	(19), (51)	410	298	112
Other assets	(52)	1,063	1,081	–18
Total		**489,072**	**464,755**	**24,318**

Liabilities and equity

	Notes	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Liabilities to banks	(11), (20), (53)	17,951	12,683	5,269
Liabilities to customers	(11), (20), (54)	10,082	11,306	–1,224
Certificated liabilities	(20), (55)	403,997	385,523	18,475
Value adjustments from macro fair value hedge accounting	(9), (56)	159	219	–60
Derivatives used for hedge accounting	(9), (57)	25,495	23,648	1,847
Other derivatives	(9), (10), (11), (58)	2,975	4,566	–1,591
Provisions	(8), (14), (21), (59)	2,801	2,306	496
Income tax liabilities	(19), (60)	320	177	144
Other liabilities	(22), (61)	1,447	1,569	–122
Subordinated liabilities	(22), (62)	2,247	2,247	0
Equity	(23), (63)	21,598	20,513	1,085
Paid-in subscribed capital		3,300	3,300	0
Capital reserve		7,197	7,197	0
Reserve from the ERP Special Fund		1,191	1,191	0
Retained earnings		10,019	8,613	1,405
Fund for general banking risks		500	400	100
Revaluation reserves	(5), (15), (21), (59)	–608	–188	–420
Total		**489,072**	**464,755**	**24,318**

Consolidated statement of changes in equity

Consolidated statement of changes in equity in the financial year 2014

	As of 1 Jan. 2014	Changes in consolidated group	Owner-related changes in equity	Appropriation of comprehensive income 2014	As of 31 Dec. 2014
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Subscribed capital	3,750	0	0	0	3,750
less uncalled outstanding contributions	–450	0	0	0	–450
Capital reserve	7,197	0	0	0	7,197
thereof promotional reserves from the ERP Special Fund	*5,900*	*0*	*0*	*0*	*5,900*
Reserve from the ERP Special Fund	1,191	0	0	0	1,191
Retained earnings	8,613	–9	0	1,414	10,019
Statutory reserve under Article 10 (2) KfW Law	*1,875*	*0*	*0*	*0*	*1,875*
Special reserve under Article 10 (3) KfW Law	*4,807*	*0*	*0*	*883*	*5,690*
Special reserve less the special loss account from provisioning pursuant to Section 17 (4) of the D-Mark Balance Sheet Law	*21*	*0*	*0*	*0*	*21*
Other retained earnings	*1,910*	*–9*	*0*	*531*	*2,432*
Fund for general banking risks	400	0	0	100	500
Revaluation reserves	–188	10	0	–431	–608
Valuation results from financial instruments (after tax)	*1*	*0*	*0*	*55*	*56*
Investments accounted for using the equity method	*–10*	*10*	*0*	*0*	*0*
Actuarial gains and losses for defined-benefit plan pension commitments (after tax)	*–179*	*0*	*0*	*–485*	*–664*
Equity	**20,513**	**2**	**0**	**1,084**	**21,598**

KfW's net income amounting to EUR 883 million was used to increase the special reserve under Article 10 (3) of the KfW Law. Moreover, the fund for general banking risks was increased by EUR 100 million.

The difference to the consolidated comprehensive income is allocated to Other retained earnings or – if recognised directly in equity – to Revaluation reserves.

Change in the revaluation reserves from financial instruments including the related deferred taxes and in the investments accounted for using the equity method in the financial year 2014

	Bonds and other fixed-income securities	Shares and other non-fixed income securities	Equity investments	Effects of deferred taxes	Investments accounted for using the equity method	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2014	**–2**	**0**	**5**	**–1**	**–10**	**–9**
A. Changes recognised in the income statement						
Decrease due to disposals	–1	0	0	0	0	–1
Increase due to disposals	0	0	0	0	0	0
Decrease due to impairments	0	0	0	0	0	0
Amortisation after reclassification	22	0	0	0	0	22
Changes in consolidated group	0	0	0	0	10	10
Total changes recognised in the income statement	**21**	**0**	**0**	**0**	**10**	**32**
B. Changes recognised directly in equity						
Changes in revaluation reserves due to impairment reversal only for equity instruments	0	0	0	0	0	0
Changes in revaluation reserves due to fair value changes	34	0	0	0	0	33
Total changes recognised directly in equity	**34**	**0**	**0**	**0**	**0**	**33**
Exchange rate changes	–1	0	0	0	0	–1
As of 31 Dec. 2014	**52**	**0**	**5**	**–1**	**0**	**56**

Change in the revaluation reserves from actuarial gains and losses for defined-benefit plan pension commitments including the related deferred taxes in the financial year 2014

	Actuarial gains and losses for defined-benefit plan pension commitments	Effects of deferred taxes	Total
	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2014	**–189**	**10**	**–179**
Changes recognised directly in equity			
Changes in revaluation reserves due to changes in actuarial gain or loss valuation parameters	–506	21	–485
As of 31 Dec. 2014	**–695**	**30**	**–664**

Consolidated statement of changes in equity in the financial year 2013

	As of 1 Jan. 2013	Changes in consolidated group	Owner-related changes in equity	Appropriation of comprehensive income 2013	As of 31 Dec. 2013
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Subscribed capital	3,750	0	0	0	3,750
less uncalled outstanding contributions	–450	0	0	0	–450
Capital reserve	6,197	0	1,000	0	7,197
thereof promotional reserves from the ERP Special Fund	*4,900*	*0*	*1,000*	*0*	*5,900*
Reserve from the ERP Special Fund	1,113	0	0	77	1,191
Retained earnings	5,468	0	0	3,145	8,613
Statutory reserve under Article 10 (2) KfW Law	*1,875*	*0*	*0*	*0*	*1,875*
Special reserve under Article 10 (3) KfW Law	*4,152*	*0*	*0*	*654*	*4,807*
Special reserve less the special loss account from provisioning pursuant to Section 17 (4) of the D-Mark Balance Sheet Law	*21*	*0*	*0*	*0*	*21*
Other retained earnings	*–580*	*0*	*0*	*2,491*	*1,910*
Fund for general banking risks	2,350	0	0	–1,950	400
Revaluation reserves	–188	0	0	–1	–188
Valuation results from financial instruments (after tax)	*–38*	*0*	*0*	*39*	*1*
Investments accounted for using the equity method	*–14*	*0*	*0*	*3*	*–10*
Actuarial gains and losses for defined-benefit plan pension commitments (after tax)	*–136*	*0*	*0*	*–43*	*–179*
Equity	**18,241**	**0**	**1,000**	**1,272**	**20,513**

Change in the revaluation reserves from financial instruments including the related deferred taxes and in the investments accounted for using the equity method in the financial year 2013

	Bonds and other fixed-income securities	Shares and other non-fixed income securities	Equity investments	Effects of deferred taxes	Investments accounted for using the equity method	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**–40**	**1**	**5**	**–3**	**–14**	**–51**
A. Changes recognised in the income statement						
Decrease due to disposals	0	0	0	0	0	0
Increase due to disposals	0	0	0	0	0	0
Decrease due to impairments	2	0	0	0	0	2
Amortisation after reclassification	28	0	0	0	0	28
Changes in consolidated group	0	0	0	0	0	0
Total changes recognised in the income statement	**31**	**0**	**0**	**0**	**0**	**31**
B. Changes recognised directly in equity						
Changes in revaluation reserves due to impairment reversal only for equity instruments	0	0	0	0	0	0
Changes in revaluation reserves due to fair value changes	7	–1	0	2	3	12
Total changes recognised directly in equity	**7**	**–1**	**0**	**2**	**3**	**12**
Exchange rate changes	0	0	0	0	0	0
As of 31 Dec. 2013	**–2**	**0**	**5**	**–1**	**–10**	**–9**

Change in the revaluation reserves from actuarial gains and losses for defined-benefit plan pension commitments including the related deferred taxes in the financial year 2013

	Actuarial gains and losses for defined-benefit plan pension commitments	Effects of deferred taxes	Total
	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**–147**	**11**	**–136**
Changes recognised directly in equity			
Changes in revaluation reserves due to changes in actuarial gain or loss valuation parameters	–42	–1	–43
As of 31 Dec. 2013	**–189**	**10**	**–179**

Consolidated statement of cash flows

	2014 EUR in millions	2013 EUR in millions
Consolidated profit	**1,514**	**1,273**
Non-cash items included in consolidated profit and reconciliation to cash flow from operating activities:		
Depreciation, amortisation, impairment and reversal of impairment losses (receivables, property, plant and equipment, securities and investments) and changes in risk provisions for lending business	267	405
Changes in other provisions	133	99
Other non-cash expenses and income	0	0
Profit/loss from the disposal of securities and investments and property, plant and equipment	–9	–17
Other adjustments	–2,511	–2,207
Subtotal	**–606**	**–448**
Changes in assets and liabilities from operating activities after adjustment for non-cash items:		
Loans and advances to banks	1,180	8,361
Loans and advances to customers	–4,569	2,173
Securities	–79	694
Other assets relating to operating activities	–20,979	28,383
Liabilities to banks	5,269	–12,994
Liabilities to customers	–1,224	–3,102
Certificated liabilities	18,475	–25,334
Other liabilities relating to operating activities	–33	–4,555
Interest and dividends received	10,266	11,040
Interest paid	–8,083	–8,650
Income tax paid	–64	–10
Cash flow from operating activities	**–448**	**–4,442**
Property, plant and equipment:		
Cash proceeds from disposals	30	2
Cash payments for investment	–102	–110
Securities and investments (equity investments):		
Cash proceeds from disposals/Cash payments for investment	–54	–50
Cash flow from investing activities	**–126**	**–158**
Cash proceeds from capital increases	0	0
Cash flow from financing activities	**0**	**0**
Cash and cash equivalents as of the end of the previous period	**1,360**	**5,960**
Cash flow from operating activities	–448	–4,442
Cash flow from investing activities	–126	–158
Cash flow from financing activities	0	0
Cash and cash equivalents as of the end of the period	**786**	**1,360**

The balance of Cash and cash equivalents reported in the statement of cash flows according to IAS 7 is identical to the balance sheet item Cash reserves and thus comprises cash on hand and balances with central banks.

The Statement of cash flows shows the changes in Cash and cash equivalents in the financial year classified between the Cash flows from operating activities, investing activities and financing activities. Other adjustments largely comprise the adjustments for net interest income in the amount of EUR –2,424 million (2013: EUR –2,413 million) as well as for valuation results amounting to EUR –310 million (2013: EUR –206 million) and effects of foreign exchange rate changes amounting to EUR +103 million (2013: EUR –50 million).

For more information on KfW Group's liquidity risk management, see "Risk report – Liquidity risk".

Notes

Accounting policies

(1) Basis of presentation

KfW is the promotional bank of the Federal Republic of Germany and was founded in 1948 as a public law institution based in Frankfurt am Main.

The Executive Board of KfW is responsible for the preparation of the consolidated financial statements and the group management report. After the recommendation of the Audit Committee, the consolidated financial statements and the group management report are submitted to KfW's Board of Supervisory Directors for approval. As of 3 March 2015, no significant events have occurred since the reporting date (31 December 2014).

As of 31 December 2014, KfW Group comprises KfW and five subsidiaries that are fully consolidated. Three associated companies are accounted for using the equity method.

Pursuant to Section 315a (1) of the German Commercial Code *(Handelsgesetzbuch – "HGB")*, the consolidated financial statements as of 31 December 2014 have been prepared in accordance with International Financial Reporting Standards *("IFRS")*, as adopted by the European Union *("EU")*, and with the interpretations set out by the International Financial Reporting Interpretations Committee *("IFRIC")*, as mandatory consolidated accounts in accordance with Article 4 of Regulation (EC) No. 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002, as well as further regulations on the adoption of certain international accounting standards. The standards and interpretations that apply are those that have been published and endorsed by the European Union as of the reporting date.

The supplementary provisions of the German Commercial Code that also apply to IFRS consolidated financial statements have been taken into account. The group management report prepared in accordance with Section 315 of the German Commercial Code includes the risk report with risk-oriented information on financial instruments as set out in IFRS 7, information on material events after the balance sheet date in accordance with IAS 10, as well as information on capital and capital management as set out in IAS 1.134.

The consolidated financial statements were prepared in accordance with accounting policies that are consistent across KfW Group and are prepared on a going concern basis. The subsidiaries included in the consolidated financial statement have prepared their annual financial statements as of 31 December 2014. Financial statements as of 30 September 2014 were used for the associated companies accounted for at equity in the consolidated financial statements.

The accounting policies in the consolidated financial statements were applied consistently.

The reporting currency and functional currency is the euro. Unless otherwise specified, all amounts are stated in millions of euros (EUR in millions).

As a general rule, assets and liabilities are measured at the reporting date at (amortised) cost, with the exception of the following financial instruments:

- derivative financial instruments measured at fair value through profit or loss;
- designated financial instruments measured at fair value through profit or loss; and
- available-for-sale financial assets measured at fair value, with fair value changes recognised directly in equity.

(2) Judgements and accounting estimates

The consolidated financial statements include amounts based on management's judgements and/or estimates and assumptions which are determined to the best of our ability and in accordance with the applicable accounting standard. Actual results realised in a future period may differ from these estimates. Estimates and assumptions are required, in particular, for calculating risk provisions, recognising and measuring provisions (for pension liabilities and legal risks), measuring the fair value of financial instruments based on valuation models, assessing and measuring impairment of assets, and assessing the utilisation of deferred tax assets. The estimates and the assumptions underlying these estimates are reviewed on an ongoing basis and are based, among other things, on historical experience or expected future events that appear likely given the particular circumstances. Where estimates and their underlying assumptions were required, the assumptions made are explained in the relevant notes.

KfW does not expect any deviations from its assumptions and does not foresee any uncertainties in its estimates that could result in a material adjustment to the related assets and liabilities within the next financial year. Given the strong dependency on the development of the economic situation and financial markets, however, such deviations and uncertainties cannot be fully excluded. These risks are nevertheless low because valuation models for measuring the fair value of financial instruments – especially those not based on observable market data – are only applied for part of the portfolio and financial derivatives are used to economically hedge risks.

Further material judgements in the application of accounting policies concern the voluntary early application of new or amended IFRS/IFRIC standards, the determination of the consolidated group, the use of the *fair value option* for the classification of financial assets and liabilities, the use of possibilities to reclassify options for financial assets in accordance with IAS 39, the determination of fair values for certain financial instruments including the assessment as to whether an active market exists, the reporting of economic hedging relationships, and the creation of classes as part of disclosing information on financial instruments.

(3) Assessment of the impact of new or amended IFRS/IFRIC standards applied for the first time

IFRS 10 was published in May 2011 and supersedes all comments and guidance contained in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" on the issue of control and consolidation. No changes regarding mandatory inclusion of subsidiaries in the consolidated financial statements resulted from the first-time application of IFRS 10. IAS 27 was amended in connection with the publication of IFRS 10. The amended IAS 27 now only provides accounting guidance for subsidiaries, associated companies and joint ventures with financial statements prepared separately from the parent company.

The new IFRS 11 "Joint Arrangements" published along with IFRS 10 sets out accounting policies for joint ventures or joint operations if at least two companies exercise joint control. The previous IAS 31 and interpretation SIC 13 have been superseded by IFRS 11. The first-time application of standard IFRS 11 and amendments to IAS 28 (Investments in Associates) did not necessitate any adjustment for those companies accounted for using the equity method.

IFRS 12 was also published in May 2011 and contains requirements for disclosure of interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Notes have been supplemented to reflect the new requirements.

The amendments to IFRS 10, IFRS 12 and IAS 27 (Investment Entities) which applied for the first time did not have any impact on the group's net assets, financial position and results of operations or the group of consolidated companies.

The amendments to IFRS 10, IFRS 11 and IFRS 12 provide relief in relation to the transition provisions, which the group has benefited from for IFRS 12.

The amendments to IAS 39 "Financial Instruments: Recognition and Measurement" (December 2013, Novation of Derivatives and Continuation of Hedge Accounting), with an effective date for reporting periods commencing on or after 1 January 2014, have not yet been applied as KfW has yet to novate a hedging instrument to a central counterparty. To the extent that KfW novates such an instrument in the future, these amendments may have a material impact on the group's net assets, financial position and results of operations.

The amendments to IAS 32 "Financial Instruments: Presentation" (December 2012, Offsetting Financial Assets and Financial Liabilities), which applied for the first time, did not have any impact on the group's net assets, financial position and results of operations.

The amendments to IAS 36 "Impairment of Assets" (December 2013, Recoverable Amount Disclosures for Non-Financial Assets), which applied for the first time, did not have any impact on the group's Notes.

The interpretation IFRIC 21 "Levies" on accounting for the liability to pay levies charged by public authorities, which applied for the first time, did not have any significant impact on the group's net assets, financial position and results of operations.

(4) Group of consolidated companies

All significant subsidiaries and associated companies are included in the consolidated financial statements.

Subsidiaries are all business units (including structured entities) over which the group exercises control. Control exists when a group is exposed or entitled to variable cash flows through its relationship and has the opportunity to use its power of disposal to influence the amount of such cash flows. Subsidiaries are included in the consolidated financial statements (full consolidation) from the point at which control is transferred to the group. They are deconsolidated when control is lost.

Associates are included in the consolidated financial statements in accordance with IAS 28 if the group has significant influence.

The composition of the consolidated group is presented in the Notes under "List of KfW Group shareholdings".

(5) Basis of consolidation

Consolidation involves revaluing the total assets and liabilities of the subsidiaries at the acquisition date, irrespective of the equity interest held, and incorporating them into the consolidated statement of financial position. The resulting adjustments from hidden reserves and hidden burdens are treated in accordance with the applicable standards. If the revaluation adjustments result in an excess compared to acquisition cost, this excess amount is capitalised as goodwill. No goodwill is currently recognised.

Any intercompany assets and liabilities as well as expenses and revenues from transactions between group companies are eliminated. Intercompany profits between consolidated companies are also eliminated.

Investments in associates are accounted for using the equity method. The contribution to the results made by associates is recognised as a separate line item in the income statement.

There are no minority interests within KfW Group.

(6) Financial instruments: recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The following explanations provide an overview of how the requirements of IAS 39 are implemented.

Initial recognition is as of the settlement date for non-derivative financial instruments and as of the trade date for derivatives.

Upon initial recognition, financial instruments must be classified into one of the following categories. The subsequent measurement depends on the following classification:

A. Loans and receivables
B. Held-to-maturity investments
C. Financial assets and liabilities at fair value through profit or loss
  a. Financial assets and liabilities designated at fair value through profit or loss, fair value option
  b. Financial assets and liabilities held for trading
D. Available-for-sale financial assets
E. Other liabilities

The *loans and receivables* category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method. For KfW Group, this primarily relates to the lending business presented under Loans and advances to banks and Loans and advances to customers. For its lending business, KfW Group uses the Basel definition for its default criteria and applies a consistent definition across the group. Default criteria are, in particular, payments more than 90 days past due (taking a marginality limit into account) and anticipated non-fulfilment of payment obligations given indicators such as filing for insolvency, material adverse change, distressed loan indication, conversion and transfer events, debt to equity swaps, deferment of payment/restructuring and disposal of loans or advances at significant loss due to deterioration in the borrower's credit rating.

Held-to-maturity investments are non-derivative financial instruments with fixed or determinable payments and fixed maturity for which the group has the intention and ability to hold to maturity. This category is used on a case-by-case basis for financial instruments which are part of the group's securities portfolio at inception. These instruments are presented as Securities and investments; any impairments and reversals of impairment losses are recognised in Net gains/losses from securities and investments. Premiums and discounts are amortised according to the effective interest method. The amortisation for the period is recognised as Net interest income.

For financial assets and liabilities, the *fair value option* can be irrevocably exercised if

– the classification can resolve or substantially reduce an accounting mismatch resulting from the measurement of financial assets or financial liabilities or the recognition of a loss or a gain as a result of different accounting policies; or
– a group of financial assets and/or financial liabilities is managed in accordance with a documented risk management or investment strategy and its performance is assessed on the basis of fair value and the information is reported to key management personnel; or
– a contract contains one or more embedded derivatives which significantly modify the cash flows required by the contract or an analysis is required to determine that the embedded derivative(s) may not be separated.

Designated financial assets and liabilities are measured at fair value through profit or loss. KfW Group uses the *fair value option* for economic hedging relationships, structured products, securitisation transactions, and equity finance business. These financial instruments in particular are recognised in Securities and investments, Liabilities to banks and customers and Certificated liabilities. Fair value changes are presented in Net gains/losses from other financial instruments at fair value through profit or loss, while interest income/expense is presented in Net interest income.

Financial instruments that belong to the *financial assets and liabilities held for trading* category are measured at fair value through profit or loss. This category includes derivatives as well as non-derivative financial instruments purchased with the intention of generating a short-term profit. KfW Group does not enter into any transactions with the intention of generating a short-term profit. Derivative transactions entered into exclusively for hedging purposes are classified as held-for-trading if they do not fulfil the hedge accounting requirements in accordance with IAS 39. They are presented as Other derivatives. Fair value changes are recognised in Net gains/losses from other financial instruments at fair value through profit or loss. Derivatives used for hedge accounting are presented in the statement of financial position in the line item of the same name. Fair value changes are recognised in Net gains/losses from hedge accounting. Interest income/expense from derivatives is reported in Net interest income.

All other financial assets fall under the *available-for-sale financial assets* category. The difference between the fair value and the (amortised) cost is recognised directly in a separate component of equity until the asset is sold or an impairment loss has to be recognised in profit or loss. A debt instrument is impaired if there is objective evidence (trigger) of impairment with an impact on the expected future cash flows. Specific trigger events are defined according to the type of financial instrument. Events such as payments overdue for 30 days or more, deterioration in the internal rating to the non-performing loans category, or a considerable decline in the market price can be considered as objective evidence of impairment. Furthermore, for equity instruments, an impairment loss has to be recognised in profit or loss in the case of a significant or prolonged decline of the fair value below the acquisition cost of equity instruments. The impairment loss of a debt security is reversed through profit or loss if there is no longer any objective evidence of impairment. Impairment losses of equity instruments may only be reversed directly in Other comprehensive income. Equity instruments that cannot be reliably measured at fair value are accounted for at cost. Impairments are recognised in profit or loss, while reversals of impairment losses are not accounted for in this case. Within KfW Group, the *available-for-sale financial assets* are reported in Securities and investments. Gains and losses from disposals, impairment losses and the reversal of impairments from debt instruments are reported in Net gains/losses from securities and investments. Premiums and discounts are amortised through profit or loss using the effective interest method. The amortisation is recognised under Interest income.

All non-derivative financial liabilities for which the *fair value option* has not been exercised are classified as *other liabilities*. These are measured at amortised cost using the effective interest method. For KfW Group, this category covers borrowings that are reported in Liabilities to banks and customers, Certificated liabilities and Subordinated liabilities.

Financial assets are derecognised as of the settlement date, with the exception of derivatives. Financial assets are derecognised when the contractual rights from the assets have expired, the power of disposal or control has been transferred, or a substantial portion of the risks and rewards has been transferred to a third party unrelated to KfW Group.
Financial liabilities are derecognised if the obligations specified in the contract have been discharged or cancelled, or have expired.

For transactions mandated by the German Federal Government in accordance with Article 2 (4) of the KfW Law, the group's general recognition procedures for the relevant financial instruments will be applied. Measurement is based on the relevant individual contractual terms and conditions concerning risk allocation.

The amendment to IAS 39 dated 13 October 2008 expanded the reclassification options for financial assets. Accordingly, until 31 October 2008, it was possible to reclassify assets classified as *available-for-sale financial assets* as *loans and receivables* with retroactive effect to 1 July 2008, and thereafter prospectively from the date of the reclassification, if there was the intention and ability to hold the financial instruments for the foreseeable future or until maturity and if the general classification criteria for *loans and receivables* were met at the date of reclassification.

On 31 October 2008, KfW Group decided to make use of its option to reclassify its asset-backed securities retroactively as of 1 July 2008. Due to the general crisis of confidence in the financial markets, there was no longer an active market for these securities at the date of the resolution (i. e. no current, regularly occurring market transactions on an arm's length basis could be observed) and which were to be held through to maturity.
In addition, on 17 February 2009, some of the securities that were held to meet the group's liquidity needs – through their use in repurchase transactions or open market transactions with the European Central Bank – were reclassified with prospective effect. As a result of the general crisis of confidence in the financial markets, an active market for these securities that were to be held for the foreseeable future no longer existed at the date of the resolution.

The fair value at the date of reclassification is the new cost of the reclassified financial assets. Amortisation is accounted for through profit or loss under Interest income using the effective interest method. The difference between the fair value and amortised cost, which had been recognised directly in equity until the reclassification date, remains in Other comprehensive income as a separate line item. Amortisation is accounted for through profit or loss under Interest income using the effective interest method.

Classes for financial instruments have been defined in agreement with the group's business model for lending business – carried at (amortised) cost – and are based on products (e. g. Loans and advances to banks broken down into money-market transactions and loans and advances) or on line items of the statement of financial position. The balance sheet items thus generally reflect a view oriented to the material risks each encompasses against the backdrop of interest rate and currency risk management at the overall bank level (interaction between non-derivative financial instruments and derivative hedging transactions). In this context, please refer to the risk report in the group management report.

(7) Financial instruments: valuation techniques

KfW Group initially recognises financial instruments at fair value.

Financial instruments measured at amortised cost are subsequently measured, within KfW Group, based on the fair value at initial recognition, taking into account any principal repayments and any impairment. The amortisation of premiums and discounts, transaction costs and fees is performed in accordance with the effective interest method on the basis of the contractual cash flows. Discounts are amortised in the promotional lending business until the end of the first fixed interest rate period (generally five or ten years).

The subsequent measurement at fair value, which, depending on the measurement category, is regularly determined either for recognition in the statement of financial position and for the disclosure of financial instruments in the Notes, is based on the following hierarchy at KfW Group:

A. Active market (allocation to the "Quoted market price" level)

The best objective evidence of fair value is provided by published price quotations in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent current – i. e. traded on the reporting date or shortly before – and regularly occurring market transactions on an arm's length basis. Together with the traded nominal volumes, the contract sizes and the number of contracts, this assessment takes into account in particular the bid-ask spreads observed which in the event of a significant increase indicate the absence of an active market.

B. No active market – valuation techniques (allocation to "Valuation methods based on observable market data (model)" or "Valuation methods based in part on market unobservable data")

If the financial instrument is not quoted in an active market, valuation techniques are used. The valuation techniques applied include, in particular, the discounted cash flow (DCF) method and option pricing models, as well as a comparison to the fair value of a financial instrument with almost identical characteristics (e. g. multiple-based models). The valuation techniques take account of all input parameters that the market participants would include in the pricing of that financial instrument, e. g. market interest rates, risk-free interest rates, credit spreads or swap curves. As these input parameters can generally be observed in the market and are usually the only significant parameters for measuring financial instruments using valuation techniques, the level for the financial instruments measured at fair value using valuation methods usually is "Valuation methods based on observable market data (model)". This allocation also generally applies for prices quoted on inactive markets published by price service agencies.

If, however, significant input parameters that are not observable on the market, such as expected risk-free customer margin or capital costs, are used in valuation techniques, the financial instrument is allocated to the "Valuation methods based in part on market unobservable data" level.

If, at the date of initial recognition, differences arise between the market-based transaction price and the model price resulting from a valuation technique that makes significant use of unobservable parameters, an analysis is performed to determine whether there are economic reasons for these initial differences (e. g. conclusion of a transaction on a market that is not the main market for this business.) These economic reasons only apply to a small part of the derivative portfolio of KfW Group, which comprises a hedging instrument for clients with respect to the export and project financing business. In relation to this, OTC (over the counter) derivatives in line with the market are not concluded on the main market (OTC interbank market) relevant to valuation. The initial differences determined upon conclusion of these derivatives are amortised through profit or loss over the life of the financial instruments, as the valuation parameters unobservable on the market are relevant to the valuation procedure. The reliability of this valuation technique is ensured via regular model validations.

C. No active market – equity instruments (allocation to "Valuation methods based in part on market unobservable data")

If in exceptional cases it is not possible to reliably determine the fair value of equity instruments that are not quoted in an active market using valuation models, they are measured at cost. The fair value cannot be measured reliably if the range of reasonable fair value estimates for this instrument is significant and the probabilities of the various estimates cannot be reasonably assessed.

This hierarchy is applied at KfW Group as follows:

Fair values are derived from active markets, in particular, for bonds and other fixed-income securities – unless there are inactive markets, and valuation techniques or prices quoted on inactive markets published by price service agencies are therefore used – as well as own issues reported on the liabilities side. However, fair values are derived from valuation techniques for non-derivative financial instruments recognised in Loans and advances to banks and customers, Liabilities to banks and customers, and Certificated liabilities. Valuation techniques are also used for OTC derivatives.

The steps detailed below are undertaken for certain product groups:

For securities in the Securities and investments line item, the group examines whether a financial instrument is quoted on an active market on the basis of homogeneous portfolios. Market activity is assessed based on the following criteria:

- There is more than one market maker.
- Prices are set on a regular basis.
- Prices deviate only slightly between market makers.
- The bid-ask spread is narrow.

Prices on active markets are used to determine the fair value of the group's asset securities as of the reporting date. In addition, for parts of the portfolio, prices from price service agencies are used that do not qualify as prices quoted on active markets. Should these not be available in individual cases, valuation techniques are used to determine fair value taking into account observable market parameters. The input parameters include, in particular, changes in creditworthiness and risk-free interest rates, but they also take into account general and financial instrument-specific tightening of the market due to lower liquidity.

In the case of OTC derivatives, valuation techniques are used that pay special attention to counterparty-specific default risks, taking into account available collateral. Default risks are not calculated separately for each transaction but for the portfolio of transactions on which a framework agreement is based. The resulting credit risk adjustment amounts are very low as KfW generally pledges collateral for positive market values in accordance with the collateral agreements concluded. In accordance with market practices, risk-free overnight interest rates were used for the valuation of a major part of the derivatives portfolio with collateralisation agreements.

Equity investments and shares which cannot be reliably measured at fair value are measured at cost.

The fair value for Loans to banks and customers is calculated using the discounted cash flow ("DCF") method based on the discounting of the risk-adjusted cash flows with the swap curve. The expected loss calculated for the respective reporting date is used to correct the contractual cash flows. The customer fee includes operating expenses, the margin, the equity and debt risk premium, and any subsidies. Calculation of the client fee involves offsetting a subsidy granted at the expense of KfW's earnings position and applying parameters of a relevant promotional market subsegment ("special promotional loans market") so that the fair value at initial recognition determined for the purposes of subsequent measurement will correspond to the transaction value. The customer fee remains unchanged for subsequent valuation (constant spread).

The Federal Republic of Germany's liability for specific KfW liabilities in accordance with Article 1a of the KfW Law has an advantageous effect on KfW's ability to fund itself. In determining the fair value of KfW's liabilities, the effect of this explicit direct state guarantee is also taken into account. The state guarantee does not represent an independent unit of account.

The fair value of financial instruments due on demand, such as Cash reserves or receivables and liabilities due on demand, is their carrying amount.

When no prices from liquid markets are available and prices on inactive markets cannot be provided by price service agencies, recognised valuation models and methods are used. The DCF method is used for securities, swaps, and currency and money market transactions with no embedded options and no complex coupons. Stand-alone options, as well as derivatives with embedded options, triggers, guaranteed interest rates and/or complex coupon agreements, are measured using recognised models (e.g. Hull & White) unless they are listed on a stock exchange. The aforementioned models are calibrated, if possible, on the basis of observable market data for instruments that are similar in terms of the type of transaction, maturity, and credit quality.

(8) Promotional lending business at KfW

The general promotional loans market, which distinguishes itself from the market for general lending business, is relevant for KfW's promotional lending business conducted as part of its legal promotional mandate. In particular, this market is characterised by the fact that promotional banks, as part of their legal mandate, fully pass on the financing costs for projects eligible for promotion. In setting the terms and conditions of the corresponding promotional loans, KfW uses its current term-differentiated refinancing rates.

On initial recognition of KfW promotional loans, for which KfW's funding costs based on current term-differentiated refinancing rates are used to determine the terms and conditions of the promotional loans, the fair value is equivalent to the transaction value.

KfW also grants promotional loans which include additional subsidies granted during the first fixed interest rate period, in the form of interest rate reductions impacting KfW's earnings. The fair value of these promotional loans – measured using the parameters of the general promotional loan market – is thus not equivalent to the transaction value at initial recognition as in this case the interest rate is below the market rate.

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 as an interest expense and accounted for as an adjustment to the carrying amount in loans and advances under the 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 adjustments to the carrying amounts of already disbursed promotional loans recognised on the assets side.

(9) Financial derivatives and hedging relationships

KfW Group enters into financial derivatives to economically hedge interest rate and currency risks, particularly those related to funding, lending and securities activities.

Economic hedging relationships are designated as hedge accounting relationships or designated as fair value through profit or loss by using the fair value option when the IFRS requirements are met. Economic hedging relationships can be recognised in the financial statements through mandatory separated embedded derivatives that are accounted for through profit or loss. In these cases, if the hedges are economically effective, the impact on the financial statements, with respect to the hedged risks, from the derivatives used for hedging purposes and the hedged transactions will substantially offset each other, so that the group's income statement substantially reflects the risk-mitigating impact of these hedging relationships.

However, not all economic hedging relationships qualify for hedge accounting or the *fair value option*. In these cases, the risk-mitigating impact of the derivatives used for hedging purposes is not reflected in the accounts because the hedged risk associated with the underlying transactions is not recognised in profit or loss under IFRS. The applicable recognition requirements may therefore lead to one-sided valuation results from the derivatives used for hedging purposes in the group's income statement – as well as volatility in profit or loss – despite an economically effective hedging relationship.

Hedge accounting, i.e. the accounting for hedging instruments (derivatives) and hedged transactions in accordance with specific requirements, is subject to strict requirements.

Within KfW Group, hedge accounting is solely applied in the form of fair value hedges to recognise economic hedging relationships between derivatives and the respective financial assets/liabilities. The hedging relationship is designated at the individual transaction level in the form of micro fair value hedge accounting, and at portfolio level in the form of macro fair value hedge accounting. If risk-free overnight interest rates are used in the valuation of the derivatives, this market practice is taken into account for the measurement of the hedged risk related to the hedged item. The effectiveness of the hedging relationships is assessed using the dollar offset method and a regression analysis.

In micro fair value hedge accounting, the hedged risks are interest rate and currency risks from bonds allocated to Securities and investments (*loans and receivables* and *available-for-sale financial assets* categories) and, in particular, Borrowings (*other liabilities* category). The fair values attributable to the hedged risks are reported as an adjustment of the carrying amount of the hedged items with the corresponding gain or loss recognised in Net gains/losses from hedge accounting. The hedging instruments are recognised at fair value in Derivatives used for hedge accounting. Changes in the value of the hedging instruments are also recognised in Net gains/losses from hedge accounting, largely compensating the profit or loss effects of the hedged items.

The fair value of the hedged risks from hedging relationships which no longer fulfil the strict hedge accounting requirements is amortised over the residual term of the original hedging relationship under Net gains/losses from hedge accounting.

Interest rate risks, primarily from loans (*loans and receivables* category), are hedged in macro fair value hedge accounting. The fair values attributable to the hedged risks in the hedged portfolios in the *loans and receivables* category are accounted for in Value adjustments from macro fair value hedge accounting on the assets side. Fair value changes attributable to the hedged risks from the hedged portfolios are shown in Net gains/losses from hedge accounting. The hedging instruments are reported at fair value in Derivatives used for hedge accounting. Changes in the value of these instruments are also recognised in Net gains/losses from hedge accounting, with the effect that they almost fully offset the earnings effects from the valuation of the hedged portfolios.
The portfolio of hedged items is updated monthly in the context of a dynamic hedge de-designation and designation process. The resulting fair value adjustments are amortised over the residual term of the maturity period in Net gains/losses from hedge accounting. Disposals from the hedged portfolios result in a proportional amortisation of the related fair value adjustments in Net gains/losses from hedge accounting. When the hedging instrument is derecognised and substituted with new transactions during the hedging period, the related fair value adjustments from the hedged portfolios are amortised in Net interest income.

If the strict hedge accounting requirements for the designation of hedging relationships between derivatives and financial assets/liabilities are not fulfilled within KfW Group, the fair value option is used for the non-derivative financial instruments in certain circumstances, in particular for structured products. Depending on the product group of some structured financial liabilities, the embedded derivatives are bifurcated instead of using the fair value option. The fair values of the corresponding hedging instruments are presented in Other derivatives and fair value changes are recognised in Net gains/losses from other financial instruments at fair value through profit or loss. These are largely offset by valuation effects from the hedged transactions.

Further derivative financial instruments are also used to hedge risks, but fair value changes of the hedged item are not reflected in the accounts. The fair values of these hedging instruments are also recognised in Other derivatives item and changes therein are recognised in Net gains/losses from other financial instruments at fair value through profit or loss.

KfW Group neither uses derivatives for trading purposes nor does it act as broker or intermediary on behalf of third parties.

(10) Treatment of embedded derivatives

Derivative financial instruments can be part of a hybrid (combined) financial instrument as embedded derivatives. Under certain conditions, they are accounted for separately from the host contract, similar to stand-alone derivatives. They must be bifurcated if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The host contract will be accounted for according to its classification at inception.

KfW Group enters into contracts with embedded derivatives requiring bifurcation particularly with respect to its own funding. In making use of the fair value option, KfW accounts for these hybrid (combined) financial instruments at fair value. In the case of certain products, however, the embedded derivatives must be bifurcated. Changes in fair value are then recognised in Net gains/losses from other financial instruments at fair value through profit or loss in the sub-line item Financial derivatives not qualifying for hedge accounting, where they have a compensatory effect on the valuation of the economic hedging derivatives.

Ancillary agreements made within KfW Group's equity finance business are accounted for as separate embedded derivatives which are measured at fair value through profit or loss and recognised in Other derivatives. Changes in fair value are recorded in Net gains/losses from other financial instruments at fair value through profit or loss in the sub-line item Financial derivatives not qualifying for hedge accounting. The loan receivables are recognised in Loans and advances to customers.

Prepayment rights that are granted regularly in the promotional lending business are not bifurcated embedded derivatives since the economic characteristics and risks associated with the prepayment rights are closely related to the economic characteristics and risks of the loan and the early prepayment amount approximately equals the amortised cost of the loan.

(11) Credit derivatives

As part of its promotional lending business, KfW Group offers commercial banks the opportunity to place their credit risks in the capital market as part of a synthetic securitisation via the two standardised platforms PROMISE (programme for the securitisation of SME loans) and PROVIDE (programme for the securitisation of housing loans). In the first stage, KfW Group assumes the default risks of the reference portfolio via portfolio credit default swaps ("CDSs"), while the risks are simultaneously passed on to third parties via portfolio CDSs/credit-linked notes. These transactions are recognised using the fair value option. The fair values are reported as receivables or liabilities. Fair value changes are recognised under Net gains/losses from other financial instruments at fair value through profit or loss. The ongoing risk premiums are recognised in Net commission income.
In the case of transactions for which, in line with individual contractual conditions, the fair value option in the case of accounting mismatch has not been exercised, portfolio CDSs are recognised in the statement of financial position as financial guarantees issued or received in accordance with the generally applicable accounting policies for these financial instruments. Credit-linked notes with embedded financial guarantees not requiring separation are accounted for as *other liabilities*.

(12) Foreign currency translation

The functional currency of KfW and its consolidated subsidiaries is the euro.
Monetary assets and liabilities denominated in a foreign currency are converted at the spot rate as of the reporting date.
Non-monetary assets and liabilities denominated in a foreign currency are normally converted at historical cost, unless they are measured at (amortised) cost.
Translation is made as of the balance sheet date using the European Central Bank reference rates. Income and expenses are translated generally at the average monthly rate.

The results from the translation of foreign currency transactions are recognised in profit or loss under Net gains/losses from other financial instruments at fair value through profit or loss.

(13) Loans and advances to banks and customers

KfW Group's lending business carried at amortised cost is recognised in Loans and advances to banks and customers. These line items primarily consist of the promotional lending business, in which loans are typically granted to the final borrowers through accredited commercial banks and insurance companies. These assets are presented in Loans and advances to banks when the commercial banks underwrite part of the liability. Promotional loans that the commercial banks on-lend without underwriting of liability are recognised in Loans and advances to customers.

Current interest and similar income are recorded under Interest income. Premiums, discounts, processing fees and charges are amortised in Interest income using the effective interest method. Processing fees that are not part of the effective interest method are recognised under Commission income.

Loans and advances to banks and customers also include loans with a subsidy element (interest rate reductions) granted by KfW as part of the economic promotion by ERP. The promotional subsidies granted annually to KfW through the ERP Special Fund based on the ERP Economic Planning Act *(ERP-Wirtschaftsplangesetz)* for the purpose of executing the ERP economic promotion programme are recognised as deferred income in *Other liabilities* and are amortised in profit or loss under Interest income as the underlying funding expenses occur.

(14) Risk provisions for lending business

The overall risk provisions for lending business include the provisions for losses on loans and advances and money market investments, including reverse repurchase agreements, as a separate line item on the assets side of the statement of financial position, as well as the provisions for contingent liabilities and irrevocable loan commitments accounted for on the liabilities side as Provisions.

The risks resulting from on balance sheet lending business are accounted for by individual and portfolio impairments recognised in profit or loss.

Individual impairment is recognised for incurred losses and is computed on the basis of individual loans. The amount of the impairment loss equals the difference between the carrying amount of the loan and the sum of discounted expected future cash flows from interest, redemption payments and collateral cash flows. The recognition of interest income in accordance with the original contractual terms ends with the date of the first individual impairment. In the subsequent measurement, the effect of compounding the present value of anticipated cash flows using the effective interest rate at inception is determined and recognised as interest income (unwinding). The risk provisions are reduced by this amount. Any reversals of individual impairment losses are accounted for through profit or loss.

Smaller and standardised loans are grouped into homogenous sub-portfolios and assessed for portfolio impairment on the basis of the default risks identified. Any reversals of portfolio impairment losses are recognised in profit or loss.

For performing loans not subject to individual impairment, the risk of impairment losses that have already occurred but have not yet been individually identified is addressed by portfolio impairment. Economic risk and transfer risk are taken into account in the calculation. The key parameters are the outstanding loan volume (based on the carrying amount) as of the reporting date, the expected loss given default and one-year probabilities of default (given a LIP (loss identification period) factor of 1). The probabilities of default and the loss given default are provided by credit risk controlling whereby the latter is adjusted for imputed cost. The underlying assumptions of expected losses are backtested on a regular basis against the actual loss experience.

For contingent liabilities and irrevocable loan commitments, impairment is assessed on an individual basis and accounted for as a provision in the statement of financial position with a corresponding effect on the income statement. For irrevocable loan commitments, impairments not yet identified individually are assessed on a portfolio basis and recognised as provisions.

If the loans are deemed partially or fully uncollectible, they are written down or written off against the allowance account. Uncollectible loans for which no individual impairments were recorded are written off directly. Recoveries on loans already written off are recognised as income in Risk provisions for lending business.

(15) Securities and investments

Securities and investments include, in particular, securities portfolios. These mainly serve to support KfW's liquidity position or are used to optimise and stabilise the ability of KfW Group to fulfil its long-term promotional mandate.

The Securities and investments item on the statement of financial position includes bonds and other fixed-income securities, shares and other non-fixed income securities, equity investments, and shares in subsidiaries not included in the consolidated financial statements which are held by KfW or its subsidiaries.

To achieve the same accounting treatment for equity investments with and without significant influence, individual group business divisions that provide equity financing as part of their promotional mandate are considered as venture capital organisations for accounting purposes provided they meet the respective requirements. These equity investments, like other equity investments, are recognised in Securities and investments.

Securities and investments are initially recognised at fair value and subsequently measured depending on their classification either as f*inancial assets at fair value through profit or loss* or as *available-for-sale financial assets*. Financial instruments with fixed or determinable payments which are not quoted in an active market are categorised as *loans and receivables*. Classification as *held-to-maturity investments* is conducted on a case-by-case basis provided that the relevant criteria are fulfilled at inception.

When non-listed equity investments are measured at fair value, appropriate allowances are made for illiquidity. For example, when applying the discounted cash flow (DCF) models the discount rate is adjusted for a fungibility factor. In cases where the fair value of non-listed equity investments cannot be reliably measured, such assets are carried at cost less any impairment losses.

Any fair value changes of *financial assets at fair value through profit or loss* are recognised in Net gains/losses from other financial instruments at fair value through profit or loss. Realised gains and losses and impairment losses relating to the *available-for-sale financial assets, loans and receivables* and *held-to-maturity investments* categories are recognised under Net gains/losses from securities and investments; amounts reported for *loans and receivables* and *held-to-maturity investments* include allowances for impairment losses that have already occurred but have not yet been individually identified, based on the expected loss for one year. Unrealised gains from *available-for-sale financial assets* are recognised directly in equity as Revaluation reserves. Current interest payments and dividends are recognised in Interest income.

(16) Repurchase agreements

KfW Group enters into repurchase agreements as standardised repos or reverse repos. These are combinations of simultaneous spot and forward transactions on securities with the same counterparty. The terms, modalities of collateral and the use of collateral follow common market practice. Credit claims are also an eligible type of collateral for open-market transactions.

The securities sold under repo transactions (spot sales) continue to be recognised and measured as securities. The repayment obligation towards the counterparty is carried as a liability to banks or customers for the amount of cash consideration received. Interest is recorded in Interest expense in accordance with the respective conditions of the repurchase agreements.

A repayment claim is recognised and measured as a loan or advance to banks or customers for the amount of cash outflow generated by reverse repos. The securities received (spot purchases) are not recognised or measured. Interest is recorded in Interest income in accordance with the respective conditions of the reverse repurchase agreements.

(17) Property, plant and equipment

The land and buildings and the plant and equipment reported by KfW Group are carried at cost less depreciation on a straight-line basis and any impairment, both recognised in Administrative expense. Impairment is recognised if the carrying amount of the asset exceeds the recoverable amount, which is the higher of the fair value less the cost to sell or the value in use. The useful life is determined based on expected wear and tear. KfW Group assumes an estimated useful life of 40 to 50 years for buildings, 4 years for workstation computer equipment and 5 to 15 years for other property, plant and equipment. Gains and losses from the sale of property, plant and equipment are recognised in Net other operating income.

Payments in advance and assets under construction are recognised in Other property, plant and equipment and are not subject to depreciation.

(18) Intangible assets

Under Intangible assets, KfW Group reports purchased and internally generated software at cost, less straight-line amortisation and impairments, both recognised in Administrative expense. The useful life is determined based on expected economic life. KfW Group assumes a useful life of five years.
Assets are impaired when the carrying amount of an asset exceeds the recoverable amount. An impairment is recorded when no future economic benefits can be identified.

Internally generated software under development is reported under Other intangible assets and is not subject to amortisation.

(19) Taxes on income

KfW is a non-taxable entity. Taxes on income for non-exempt subsidiaries and their affiliates are determined according to the tax laws in the country of residence. Current taxes on income as well as deferred tax expenses and income are recognised in profit or loss as Taxes on income or directly in equity under Revaluation reserves depending on the underlying transaction. Current and deferred tax assets and liabilities are reported as a separate line item in the statement of financial position. Deferred Income tax assets and liabilities are offset only when the requirements are met.

Current taxes on income are calculated using currently applicable tax rates.

Deferred tax assets and liabilities arise as a result of differences between carrying values of an asset or a liability and the respective tax bases if the differences are likely to result in taxable or tax deductible amounts in the future (temporary differences). Deferred tax assets relating to loss carryforwards not yet used are recognised only if there is a sufficient degree of certainty that the taxable entity will earn sufficient taxable income in subsequent periods to use the loss carryforward.

(20) Liabilities to banks and customers and Certificated liabilities

Liabilities to banks and customers primarily include non-current borrowings carried at amortised cost and KfW Group's money-market transactions. Certificated liabilities contain issued bonds, notes and money-market instruments. Own issues repurchased for market-making purposes are deducted from the liabilities as of the repurchase date.

The fair value option is exercised for structured liabilities, or, in the case of certain products, the embedded derivatives must be separated from the host contract and accounted for as stand-alone derivatives. Presentation of the different types of funding is not based on their classification or their designation as hedged items. Measurement of liabilities is based on their respective classification.

Current interest is recorded in Interest expense; premiums and discounts are amortised using the effective interest method over the expected life in Interest expense. Fair value changes of liabilities designated at fair value are recognised in profit or loss under Net gains/losses from other financial instruments at fair value through profit or loss, where they have an offsetting effect with the fair value changes from economic hedging derivatives. Results from the repurchase of own issues categorised as *other liabilities* are recognised at the repurchase date in Net other operating income.

(21) Provisions

Provisions include provisions for pensions and similar commitments, provisions for credit risks, interest rate reductions in irrevocable loan commitments granted by KfW in the promotional lending business and negatively impacting its earnings, as well as other obligations of uncertain amount and timing involving a probable outflow of funds.

The employees of KfW Group participate in a company pension plan that pays retirement, long-term disability and survivor benefits. KfW Group has various exclusively defined-benefit pension plans. The benefits largely depend on the length of company service and salary. The pension plan that was applied for new hires until 1985 offered a full pension *(Gesamtversorgung)*, in which a certain portion of the income paid before the benefits were due was allocated as a benefit and deducted from the state pension. Apart from employer-financed pension plans there are also plans in place involving contributions by employees.

KfW Group pension plans are subject to the following risks in particular: longevity, interest rate, pension adjustment risk as well as the risk of future changes to the assessment bases.

Longevity risk is the risk that higher expenses will be incurred for the company pension plan if the pensioners live longer than projected. In general, this risk is balanced out across all pensioners and would only have an impact if life expectancy were to rise faster in the future than anticipated.

Due to the long term of the company pension plan, provisions for pension obligations are subject to general interest rate risks.

Pension adjustment risk largely relates to the pension plan's full provision structure. Benefits are recalculated as soon as there is a change in the base income eligible for pension or the state pension to be offset. Another pension plan must be examined regularly in terms of forecast and actual pension adjustments, undertaking such adjustments if necessary.

The amount of the benefits promised under the existing pension plans at KfW Group depends, among other things, on development of the income eligible for benefits and the social security contribution ceiling *(Beitragsbemessungsgrenze)*. There is a risk that the basis of assessment will develop differently than was assumed.

The pension obligation is calculated by independent qualified actuaries in accordance with the projected unit credit method on the basis of group-wide uniform parameters such as age, length of company service and salary. The pension provision is recognised at the present value of the defined-benefit obligations as of the reporting date. The discount factor is based on current market conditions for a portfolio of high quality corporate bonds/bonds from supranational issuers with a maturity matching that of the obligations. The definition of the portfolio takes into account actual market conditions. Additional demographic factors (including the 2005 G Heubeck actuarial tables) and actuarial assumptions (rate of salary and pension increases, rate of staff turnover, etc.) are taken into account.

No plan assets were defined for the pension obligations of KfW Group, so the related special accounting rules do not apply. Provisions for pensions and similar obligations are financed in-house with sufficient assets with corresponding maturities.

Actuarial gains and losses are immediately recognised at the time they occur. They occur as a result of remeasurement of pension obligations as of the reporting date compared to the figures forecast at the beginning of the year.

Additions to pension provisions distinguish between service cost and interest expense. Service cost is reported under Administrative expense; interest expense is reported under Other interest expense. The pension provision changes recognised directly in equity comprise the actuarial gains and losses reported in Revaluation reserves; these are reported in Other comprehensive income.

Pension-like obligations include commitments for deferred compensation, early retirement and partial retirement. Actuarial reports are prepared and a provision is recognised accordingly for these types of commitments as well. No actuarial gains or losses are incurred.

Other provisions, including those for obligations to employees and for audit and consultancy services, are recognised at the estimated expenditure. Long-term provisions are discounted where the effect is material. Added to this are obligations arising from the assumption of the tasks of the State Insurance Company of the German Democratic Republic in liquidation *(Staatliche Versicherung der Deutschen Demokratischen Republik in Abwicklung – SinA* (institution under public law)), which are offset by receivables in the same amount from the Federal Agency for Special Tasks Arising from Unification *(Bundesanstalt für vereinigungsbedingte Sonderaufgaben – BvS)* reported under Other assets.

(22) Subordinated liabilities

Subordinated liabilities include liabilities to the ERP Special Fund.

Subordinated liabilities are classified as *other liabilities* and carried at amortised cost.

Deferred interest as well as value adjustments from micro fair value hedge accounting are recognised in Other liabilities.

Current interest expenses are recorded in Interest expense.

(23) Equity

The equity structure is, in particular, determined by the KfW Law and the requirements of IFRS.

Pursuant to Article 10 (2) and (3) of the KfW Law, KfW's net income for the period determined in accordance with the German Commercial Code is transferred to reserves and is included in equity under IFRS.

KfW Group has created a fund for general banking risks. Additions to or reductions of the fund are shown under IFRS as appropriation of consolidated profit/loss.

Under IFRS, any remaining consolidated net income is allocated to Other retained earnings in the same period.

Under IFRS, revaluation reserves comprise transactions to be recognised directly in equity. These include valuation results from financial instruments of the category *available-for-sale financial assets,* and actuarial gains and losses in the case of defined-benefit plan pension commitments. They also may include deferred taxes, depending on the underlying transaction.

(24) Contingent liabilities and irrevocable loan commitments

KfW Group's contingent liabilities result mainly from guarantees (financial guarantee contracts). All contingent liabilities are disclosed in the Notes at their nominal amounts less any related provision.

As part of the sale of its stake in IKB, the German industry bank, in 2008, KfW agreed to indemnify IKB for certain legal risks to a certain amount. As of the end of the reporting period, no proceedings are pending against IKB which are relevant in this context.

Irrevocable loan commitments are firm commitments by KfW Group to grant a loan under contractually agreed terms. These are disclosed in the Notes at their nominal amounts less any related provision.

(25) Trust activities

Assets and liabilities held by KfW Group in its own name but for the account of third parties are not recognised. This applies in particular to loans granted under German Financial Cooperation to support developing countries. The related funds are granted and underwritten by the German federal budget. The fees earned associated with these transactions are recognised under Commission income.

(26) Leasing transactions

Leases are classified as operating leases or as finance leases depending on the risks and rewards relating to ownership of an asset. This classification determines their accounting treatment.

Contracts where the group is a lessee (including real estate leases) are largely classified as operating leases; the corresponding rental payments are included in Administrative expense.

The small number of contracts in which KfW Group acts as a lessor are classified as operating leases. The corresponding rental income is recognised in Other operating income.

Notes to the statement of comprehensive income

(27) Net interest income

Analysis of Net interest income by class

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Interest and similar income from loans and advances to banks and customers	9,240	9,837	–596
Similar income from financial guarantees	37	32	5
Interest income from securities and investments	610	712	–102
Interest income from derivatives	376	455	–79
Other interest income	589	612	–23
Interest income	**10,851**	**11,647**	**–796**
Interest and similar expense for liabilities to banks and customers	455	546	–91
Interest expense for certificated liabilities	8,636	9,552	–916
Interest expense for subordinated liabilities	77	111	–33
Interest expense for derivatives	–1,210	–1,701	491
Other interest expense	470	727	–257
Interest expense	**8,428**	**9,234**	**–806**
Total	**2,423**	**2,413**	**10**

Expenses for granting promotional loans below market rates – due to additional promotional funds in the form of interest rate reductions impacting KfW's earnings position – amount to EUR 345 million (2013: EUR 584 million) and are reported in Other interest expense. In addition to the charges resulting from the present value of the nominal scheduled interest rate reductions in new lending business, Other interest expense also comprises the expenses arising from amortisation at an effective interest rate. Interest and similar income from loans and advances to banks and customers also comprises income from accrual-based amortisation in the amount of the pro-rata nominal planned interest rate reductions for these promotional loans in the amount of EUR 510 million (2013: EUR 517 million).

Income from unwinding in the amount of EUR 26 million (2013: EUR 32 million) is reported under Interest and similar income from loans and advances to banks and customers.

Interest income from derivatives includes the net interest income from derivatives irrespective of whether they are used for hedge accounting. Interest income and expenses from derivatives which are directly related to individual financial assets or financial liabilities and which are not included in macro fair value hedge accounting are recognised depending on the related hedged transaction in Interest income from derivatives (for related financial assets) or in Interest expenses from derivatives (for related financial liabilities). Taking account of interest income or expenses from the related hedged transactions, presentation of these figures is thus based on the economic nature of the hedged financial assets (floating rate financial assets) or hedged financial liabilities (floating rate financial liabilities).

Analysis of interest income from securities and investments

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Interest income from bonds and other fixed-income securities	566	661	–94
Income from equity investments	43	51	–8
Income from shares in affiliated entities not included in the consolidated financial statements	1	0	1
Total	**610**	**712**	**–102**

(28) Risk provisions for lending business

Analysis of Risk provisions by transaction

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Impairment charges	584	733	–149
Direct write-offs	72	75	–3
Expense for risk provisions	**656**	**808**	**–152**
Income from the reversal of impairment losses	436	432	5
Income from recoveries of amounts previously written off	77	66	12
Income from risk provisions	**513**	**497**	**16**
Total	**–143**	**–311**	**168**

(29) Net commission income

Analysis of Net commission income by class

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Commission income from lending business	144	166	–22
Other commission income	239	196	43
Income from trust activities	1	1	0
Commission income	**384**	**362**	**21**
Commission expense for lending business	61	71	–10
Other commission expense	16	16	0
Commission expense	**76**	**87**	**–11**
Total	**307**	**275**	**32**

Commission income from lending business also includes current premiums and fees from the synthetic securitisation platforms PROMISE and PROVIDE.

Other commission income includes fees for the administration of German Financial Cooperation with the Promotion of developing and transition countries business sector in the amount of EUR 156 million (2013: EUR 169 million).

(30) Net gains/losses from hedge accounting

Analysis of Net gains/losses from hedge accounting by type of hedging relationship

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Micro fair value hedge accounting	–58	104	–162
Macro fair value hedge accounting	232	59	173
Total	**173**	**162**	**11**

Net gains/losses from macro fair value hedge accounting comprise the valuation of hedging instruments in the amount of EUR –9,500 million (2013: EUR 4,695 million) and the valuation of hedged risks from the hedged portfolios. It also includes the amortisation of the value adjustments from the dynamic hedge designation and de-designation and the pro rata reversal of value adjustments in the event of derecognition of financial instruments from the underlying portfolios as well as the pull-to-par effect of the hedging derivatives.

Analysis of Net gains/losses from micro fair value hedge accounting by hedged item

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Hedging of securities and investments	5	0	4
Hedging of certificated liabilities	–44	124	–169
Hedging of subordinated liabilities	0	–3	3
Subtotal: Effectiveness of hedges	**–40**	**121**	**–161**
Amortisation of value adjustments	–18	–17	–1
Total	**–58**	**104**	**–162**

Gross analysis of the valuation of gains/losses from micro fair value hedge accounting: Comparison of hedged items and hedging instruments in the financial year 2014

	Hedged items	Hedging instruments	Result of effectiveness of hedges
	EUR in millions	EUR in millions	EUR in millions
Hedging of securities and investments	58	–53	5
Hedging of liabilities to banks and customers	–316	315	0
Hedging of certificated liabilities	–3,978	3,934	–44
Hedging of subordinated liabilities	22	–22	0
Total	**–4,214**	**4,173**	**–40**

Gross analysis of the valuation of gains/losses from micro fair value hedge accounting: Comparison of hedged items and hedging instruments in the financial year 2013

	Hedged items	Hedging instruments	Result of effectiveness of hedges
	EUR in millions	EUR in millions	EUR in millions
Hedging of securities and investments	–433	434	0
Hedging of liabilities to banks and customers	187	–187	0
Hedging of certificated liabilities	7,317	–7,192	124
Hedging of subordinated liabilities	106	–109	–3
Total	**7,176**	**–7,055**	**121**

(31) Net gains/losses from other financial instruments at fair value through profit or loss

Analysis of Net gains/losses from other financial instruments at fair value through profit or loss by class

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Securities and investments	147	51	96
Assets	**147**	**51**	**96**
Liabilities to banks and customers	–387	151	–538
Certificated liabilities	–1,642	723	–2,365
Liabilities	**–2,029**	**874**	**–2,903**
Financial derivatives not qualifying for hedge accounting	1,691	–877	2,568
Credit derivatives	44	14	30
Derivative financial instruments	**1,735**	**–863**	**2,597**
Foreign currency translation	44	–86	130
Total	**–104**	**–25**	**–80**

Net gains/losses from Liabilities to banks and customers include the result of the credit-linked notes issued under the PROMISE and PROVIDE synthetic securitisation platforms. The net gains/losses from Credit derivatives include the result from the portfolio CDSs concluded under these platforms.

Net gains/losses from financial derivatives not qualifying for hedge accounting are attributable to derivatives in economic hedges. Economic hedges are mainly recognised by exercising the *fair value option* for the hedged items. The hedged items include, in particular, borrowings in the form of Certificated liabilities and Liabilities to banks and customers as well as securities and investments.

In addition, the net gains/losses from financial derivatives that do not qualify for hedge accounting include fair value changes of embedded derivatives from equity finance business which are bifurcated. Furthermore, this line item includes gains/losses from embedded derivatives from financial liabilities that are bifurcated; the net gains/losses from the valuation of the associated hedging derivatives are thus compensated for.

Analysis of Net gains/losses from securities and investments at fair value through profit or loss by product type

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Bonds and other fixed-income securities	–1	2	–3
Shares and other non-fixed income securities	0	5	–5
Equity investments	148	44	104
Total	**147**	**51**	**96**

Analysis of net gains/losses from credit-linked notes from the synthetic securitisation platforms PROMISE and PROVIDE at fair value through profit or loss

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
CDSs	44	14	30
Issued credit-linked notes	–44	–14	–30
Total	**0**	**0**	**0**

Gross analysis of the results from economically hedged borrowings: Comparison of hedged items and hedging instruments

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Borrowings	–1,985	888	–2,873
Hedging instruments	1,773	–1,140	2,913
Total (Result of effectiveness of economic hedges)	**–212**	**–252**	**39**

(32) Net gains/losses from Securities and investments

Analysis of net gains/losses from securities and investments by class

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Bonds and other fixed-income securities	81	73	9
Shares and other non-fixed income securities	–1	0	–1
Equity investments	–84	–61	–23
Total	**–3**	**12**	**–15**

The net gains/losses from financial instruments include gains and losses realised from the sale and impairment of securities and investments classified as *available-for-sale financial assets, loans and receivables* or *held-to-maturity investments.*

In the reporting year, equity instruments at a carrying amount of EUR 54 million (2013: EUR 74 million), for which the fair value could not be reliably determined, were disposed of. This generated a realised net gain of EUR 16 million (2013: EUR –9 million), which is contained in the net gains/losses from shares and other non-fixed income securities and the net gains/losses from equity investments.

Disclosures on impairment of securities and investments

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Securities and investments	96	94	2
Bonds and other fixed-income securities	*3*	*23*	*–20*
Shares and other non-fixed income securities	*1*	*0*	*1*
Equity investments	*93*	*71*	*22*

Disclosures on the reversal of impairment losses from securities and investments

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Securities and investments	87	84	3
Bonds and other fixed-income securities	*87*	*84*	*3*

(33) Net gains/losses from investments accounted for using the equity method

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Net gains/losses from investments accounted for using the equity method	7	2	5

Net gains/losses from investments accounted for using the equity method includes proceeds from the sale of joint ventures.

(34) Administrative expense

Analysis of Administrative expense

	2014	2013	Change
	EUR in millions	EUR in millions	EUR in millions
Wages and salaries	467	440	28
Social security contributions	61	58	3
Expense for pension provision and other employee benefits	57	44	13
Personnel expense	**585**	**541**	**44**
Other administrative expense	423	392	31
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	64	51	14
Non-personnel expense	**487**	**442**	**44**
Total	**1,072**	**984**	**88**

Other administrative expense includes rental expenses arising from operating leases in the amount of EUR 13 million (2013: EUR 12 million).

(35) Net other operating income

Analysis of Net other operating income

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Other operating income	65	87	–22
Other operating expense	45	297	–252
Total	**20**	**–210**	**230**

Other operating income includes income from repurchasing of certified liabilities in the amount of EUR 29 million (2013: EUR 3 million), realisation gains from the disposal of assets in the amount of EUR 2 million (2013: EUR 11 million) and income from the reversal of other provisions in the amount of EUR 12 million (2013: EUR 40 million).

Other operating expense includes contributions paid to the restructuring fund for banks in the amount of EUR 4 million (2013: EUR 4 million). KfW is not obligated to contribute to the fund in accordance with Section 2 of the Restructuring Fund Act (*Restrukturierungsfondsgesetz* – "RStrukFG").

KfW's additional efforts arising from its assumption of federal support for expenses of promotional activities that were supposed to be funded by the Federal Energy and Climate Fund had a negative impact of EUR 264 million on Other operating expense in the previous year.

(36) Taxes on income

Analysis of Taxes on income by component

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Current taxes on income	89	61	28
Deferred taxes	6	3	4
Total	**95**	**63**	**32**

Deferred tax liabilities resulted in expenses of EUR 6 million (2013: EUR 3 million income). These expenses resulted from the change of temporary differences and the use of tax loss carryforwards.

The reconciliation shows the relationship between the calculated income tax expense for the financial year and reported taxes on income.

Tax reconciliation

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Profit/loss from operating activities (before taxes)	1,609	1,336	273
Group income tax rate	0%	0%	0%
Calculated income tax expense	**0**	**0**	**0**
Effects of tax rate differentials within the group	42	118	–76
Effect of tax rate changes	0	0	0
Effects of previous year taxes recorded in the reporting year	15	–69	84
Effects of non-deductible taxes on income	14	12	2
Effects of non-deductible business expenses	20	4	16
Effects of tax-free income	0	–4	4
Trade tax add-ons/reductions	1	3	–2
Permanent accounting differences	–1	76	–77
Effects of changes in recognised deferred tax assets	4	–77	81
Reported taxes on income	**95**	**63**	**32**

KfW's applicable income tax rate of 0%, on which the reconciliation is based, takes into account the tax status of KfW as a non-taxable public-law institution and the major effect of this status on profit/loss from operating activities.

The effects of tax rate differentials result from individual group companies being taxable and the related different tax rates. The tax rates continue to range from 0% to 32%.

(37) Other comprehensive income

Analysis of Other comprehensive income by class

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Amounts that may be reclassified to the income statement	**65**	**42**	**23**
Financial instruments	55	38	17
Bonds and other fixed-income securities	*55*	*38*	*16*
Shares and other non-fixed income securities	*0*	*–1*	*0*
Equity investments	*0*	*0*	*0*
Deferred taxes on financial instruments	0	2	–2
Investments accounted for using the equity method	10	3	7
Amounts not reclassified to the income statement	**–485**	**–43**	**–442**
Defined-benefit plan pension commitments	–506	–42	–464
Deferred taxes on defined-benefit plan pension commitments	21	–1	22
Total	**–420**	**–1**	**–420**

Other comprehensive income comprises amounts recognised directly in equity under Revaluation reserves. These amounts include income and expenses from financial instruments classified as *available-for-sale financial assets,* changes in actuarial gains and losses for defined-benefit plan pension commitments, and changes in deferred taxes reported depending on the underlying transaction.

Analysis of reclassified amounts included in the income statement by class

	2014 EUR in millions	2013 EUR in millions	Change EUR in millions
Reclassified amounts relating to financial instruments	22	31	–9
Bonds and other fixed-income securities	*21*	*31*	*–10*
Shares and other non-fixed income securities	*0*	*0*	*0*
Equity investments	*0*	*0*	*0*
Subordinated assets	*0*	*0*	*0*
Reclassified amounts relating to deferred taxes on financial instruments	0	0	0
Reclassified amounts relating to investments accounted for using the equity method	10	0	10
Total	**32**	**31**	**1**

The reclassified amounts detailed in the table above represent income and expenses which were accounted for through profit or loss during the reporting period and which were previously recognised directly in equity in the Revaluation reserves. They also include amortisation of Revaluation reserves related to the reclassification of securities and investments from the *available-for-sale financial assets* measurement category to the *loans and receivables* measurement category. Income recognised in the income statement is reported with a negative sign preceding the amount and expenses with a positive sign.

Segment reporting

(38) Segment reporting by business sector

In accordance with the provisions of IFRS 8, segment reporting follows the internal management reporting system, which is used by the group's main decision-makers to assess each segment's performance and to allocate resources to segments.

In accordance with the business sector structure for KfW Group, the segments and their products and services can be presented as follows:

Mittelstandsbank *(SME Bank)*	– Financing of corporate and industrial pollution control investments – Equity financing – Advisory services
Kommunal- und Privatkundenbank/Kreditinstitute *(Municipal and Private Client Bank/Credit Institutions)*	– Financing for housing construction and modernisation – Education finance – Infrastructure and social finance – General funding of the special credit institutions of the German Federal States – Individual financing banks – Transactions on behalf of the Federal Government
Export and project finance	– Financing for German and European export activities – Financing for projects and investments in German and European interests
Promotion of developing and transition countries	– Promotion of developing and transition countries on behalf of the Federal Government (budget funds) with complementary market funds raised by KfW – Financing provided by DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (private enterprise financing)
Capital markets	– Securities and money market investments – Holding arrangements for the Federal Republic of Germany – Transactions mandated by the Federal Government, loan granted to Greece – Funding
Head office	– Central interest rate and currency management – Strategic equity investments

The business sectors are measured on the basis of their contribution to consolidated profit. The individual line items are based on the following methods:

– Net interest income (before promotional activity) comprises interest margins from asset operations calculated on the basis of the market interest rate method[1]. The item also includes the imputed return on equity with an analysis based on economic capital usage. Head office also includes the treasury result, which largely comprises the income/loss from interest rate management. The profit contribution from KfW funding[2] is allocated to the Capital markets business sector.

– The promotional activity included in interest, commission and administrative expense in the income statement is reported separately pursuant to the internal management report due to the special relevance of the promotional activity as a management variable. Promotional activity is understood to mean certain expenses of

[1] Refinancing at matching maturities using KfW's internal refinancing curve is assumed for the calculation of interest margins in this method.
[2] The difference between the realised refinancing rates and the maturity-matched refinancing rates calculated in-house.

both business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) with a positive impact on the achievement of KfW's promotional objectives. Promotional activity primarily consists of additions of the interest rate reductions[3] accounted for at present value from new promotion business as well as from the compounding effect. Additional support components are the expense for consultancy grants and sales partner incentives through upfront fees in certain products of the Mittelstandsbank business sector (included in Commission expense) as well as for available and product-related marketing measures (included in Administrative expense).

- The allocation of Administrative expense (before promotional activity) is based on the results from activity-based accounting by cost centres[4]. Administrative expense (before promotional support) includes depreciation on property, plant and equipment and amortisation of intangible assets.

- In the Risk provisions for lending business item, net impairment charges, direct write-offs and recoveries on loans written off are distributed among the segments according to the underlying loan.

- The valuation result comprises the net gains/losses from hedge accounting, the net gains/losses from other financial instruments at fair value, the net gains/losses from securities and investments, the net gains/losses from investments accounted for using the equity method and net other operating income. The prior-year figures included the expense from the EUR 264 million assumption of federal support for KfW promotional activities that were supposed to be financed by the Energy and Climate Fund (allocation to Head office).

- When taxes on income are allocated to the business sectors (excluding the Head office) only the current taxes on income are taken in account. Deferred taxes are allocated to the Head office.

- The reported economic capital requirement is quantified for a solvency level of 99.99 % and covers potential credit, market price and operating risks as well as hidden burdens for securities. The economic capital requirement also includes the separate line item and project risks as of the reporting date 31 December 2014.[5]

- Segment assets are not reported in accordance with the internal management reporting system as it is used neither to assess each segment's performance nor to allocate resources to segments.

[3] See note (8) for details of KfW's interest rate reductions in the promotional lending business. The present value of the nominal scheduled interest rate reductions, which is recognised as interest expense in profit or loss, is allocated to the Mittelstandsbank and Kommunal- und Privatkundenbank/Kreditinstitute business sectors. The effect of accrued interest on the present values contained in interest expense is allocated to the Head office for simplification reasons.
[4] The costs incurred in the organisational units are allocated to the products by means of core services.
[5] The statistical models and methods used are explained in the risk report section of the group management report.

– The presentation of segment income and expenses is based on consolidated figures. Administrative and commission expense as well as commission income and other operating income resulting from service relationships within KfW Group is adjusted in segment reporting. Negligible consolidation effects remaining are reported in the Reconciliation/consolidation column.

Segment reporting by business sector for the financial year 2014

	Mittelstandsbank[1]	Kommunal- und Privatkundenbank/ Kreditinstitute	Export and project finance[1]	Promotion of developing and transition countries[1]	Capital markets	Head office	Reconciliation/consolidation	KfW Group
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
New promotional business volume	**19,924**	**27,699**	**16,638**	**8,830**	**1,203**	**0**	**–153**	**74,141**
Net interest income (before promotional activity)	264	320	786	330	271	796	1	2,768
Net commission income (before promotional activity)	21	27	39	173	54	1	0	313
Administrative expense (before promotional activity)	168	238	205	329	72	46	0	1,059
Operating result before valuation (before promotional activity)	**117**	**109**	**619**	**173**	**252**	**751**	**1**	**2,023**
Risk provisions for lending business	–8	–61	–1	–73	–1	0	0	–143
Valuation result	–19	0	–17	139	69	–81	1	93
Profit/loss from operating activities (before promotional activity)	**90**	**48**	**602**	**239**	**320**	**670**	**3**	**1,973**
Promotional activity (expense)	286	26	0	0	0	52	0	364
Taxes on income	0	0	61	15	0	19	0	95
Consolidated profit	**–196**	**23**	**541**	**224**	**320**	**599**	**3**	**1,514**
Economic capital requirement	**1,449**	**1,339**	**2,327**	**2,222**	**1,164**	**6,998**	**1**	**15,501**

[1] The valuation result of the business sectors contains the following net gains/losses from investments accounted for using the equity method: Mittelstandsbank EUR –1.4 million, Export and project finance EUR 8.9 million and Promotion of developing and transition countries EUR –0.3 million.

Segment reporting by business sector for the financial year 2013

	Mittel-stands-bank[1]	Kommunal– und Privat-kunden-bank/ Kredit-institute	Export and project finance[1]	Promotion of devel-oping and transition countries[1]	Capital markets	Head office	Reconcili-ation/con-solidation	KfW Group
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
New promotional business volume	**22,640**	**28,911**	**13,736**	**6,718**	**651**	**0**	**–193**	**72,462**
Net interest income (before promotional activity)	275	306	779	327	343	967	–1	2,997
Net commission income (before promotional activity)	19	32	44	187	–2	0	0	280
Administrative expense (before promotional activity)	165	224	189	304	64	30	0	976
Operating result before valuation (before promotional activity)	**129**	**114**	**634**	**211**	**277**	**938**	**–1**	**2,302**
Risk provisions for lending business	–54	–36	–189	–37	–1	6	0	–311
Valuation result	3	0	13	65	77	–216	0	–58
Profit/loss from operating activities (before promotional activity)	**77**	**78**	**458**	**239**	**354**	**728**	**–1**	**1,933**
Promotional activity (expense)	460	74	0	0	0	62	0	597
Taxes on income	0	0	22	34	0	7	0	63
Consolidated profit	**–383**	**3**	**437**	**205**	**354**	**658**	**–1**	**1,273**
Economic capital requirement	**1,616**	**1,382**	**2,209**	**1,963**	**1,348**	**5,061**	**1**	**13,581**

[1] The valuation result of the business sectors contains the following net gains/losses from investments accounted for using the equity method: Mittelstandsbank EUR –1.3 million, Export and project finance EUR 0.7 million and Promotion of developing and transition countries EUR 2.6 million.

The reconciliation/consolidation column includes all adjustments that were necessary to reconcile segment information with the aggregated information for KfW Group. The consolidation effects reported for “New promotional business volume relate to programme loan commtiments made by Mittelstandsbank and Kommunal- und Privatkundenbank/Kreditinstitute for which KfW IPEX-Bank acts as the on-lending bank. The other amounts in this column result from minimal consolidation effects.

(39) Segment reporting by region

Net interest and commission income are allocated on the basis of the clients' geographical location. The imputed return on equity included in net interest income, the profit contribution from KfW funding and the treasury result are allocated to Germany. KfW receives commission income from the Federal Government for supporting developing and transition countries using budget funds of the Federal Government. This is allocated according to the region of the country receiving the investment. The commission expense paid to special purpose entities resulting from the asset securitisation platform is distributed according to the geographical location of the originator bank.

Property, plant and equipment and intangible assets are not reported according to region because, apart from immaterial amounts, these assets relate to Germany.

Segment reporting by region for the financial year 2014

	Germany	Europe (excl. Germany)	Rest of the world	Reconciliation/ consolidation	KfW Group
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Net interest income	1,515	444	464	1	2,423
Net commission income	65	63	180	0	307
Segment income	**1,579**	**507**	**643**	**1**	**2,731**

Segment reporting by region for the financial year 2013

	Germany	Europe (excl. Germany)	Rest of the world	Reconciliation/ consolidation	KfW Group
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Net interest income	1,551	425	438	–1	2,413
Net commission income	67	32	177	0	275
Segment income	**1,618**	**457**	**615**	**–1**	**2,688**

The reconciliation/consolidation column includes all adjustments that were necessary to reconcile segment information with the aggregated information for KfW Group. The amounts in this column result solely from minimal consolidation effects.

Notes to the statement of financial position

(40) Cash reserves

Analysis of Cash reserves by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Balances with central banks	786	1,359	–574

(41) Loans and advances to banks

Analysis of Loans and advances to banks by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Money-market transactions	4,885	7,192	–2,307
Loans and advances	251,255	247,811	3,444
Other receivables	23,727	25,903	–2,176
Total	**279,867**	**280,906**	**–1,039**

An adjustment to the carrying amount totalling EUR 1,794 million (31 Dec. 2013: EUR 1,955 million) is reported under Loans and advances due to the interest rate being below the market rate for promotional loans paid out with additional promotional funds in the form of interest rate reductions impacting KfW's earnings position.

The receivables from reverse repurchase agreements (reverse "repos"), cash collateral pledged and the PROMISE and PROVIDE synthetic securitisation platforms are included in Other receivables.

Analysis of Loans and advances to banks by underwriting liability type

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Direct loans to banks	83,995	83,679	316
On-lent customer loans with full underwriting borne by the on-lending commercial bank	165,473	162,056	3,417
On-lent customer loans with partial underwriting borne by the on-lending commercial bank	3,096	3,669	–573
Direct and on-lent subordinated loans	486	362	123
Adjustment to the carrying amount due to the interest rate being below the market rate for promotional loans paid out with additional promotional funds in the form of interest rate reductions impacting KfW's earnings position	–1,794	–1,955	160
Total	**251,255**	**247,811**	**3,444**

Direct loans to banks includes in particular global loans granted as part of financing for domestic housing construction and SMEs.

(42) Loans and advances to customers

Analysis of Loans and advances to customers by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Money-market transactions	977	395	582
Loans and advances	115,934	112,407	3,528
Other receivables	2,999	2,918	81
Total	**119,910**	**115,719**	**4,191**

An adjustment to the carrying amount totalling EUR 204 million (31 Dec. 2013: EUR 252 million) is reported under Loans and advances due to the interest rate being below the market rate for promotional loans paid out with additional promotional funds in the form of interest rate reductions impacting KfW's earnings position.

The receivables from reverse repurchase agreements (reverse "repos") are included in Other receivables.

Analysis of Loans and advances to customers by underwriting liability type

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Direct loans to customers	111,511	107,438	4,073
On-lent customer loans without underwriting borne by the on-lending commercial bank	405	420	–15
Customer loans on-lent through insurance companies with full underwriting borne by the on-lending insurance company	200	101	99
Direct subordinated loans and subordinated loans on-lent through commercial banks and insurance companies	4,022	4,699	–676
Adjustment to the carrying amount due to the interest rate being below the market rate for promotional loans paid out with additional promotional funds in the form of interest rate reductions impacting KfW's earnings position	–204	–252	47
Total	**115,934**	**112,407**	**3,528**

Direct loans to customers include in particular loans granted under export and project financing, municipal financing and education financing. The item also includes loans connected with certain transactions mandated by the Federal Government in accordance with the KfW Law.

(43) Risk provisions for lending business

Analysis of Risk provisions for lending business by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Loans and advances to banks	160	159	1
Loans and advances to customers	1,697	1,793	–96
Provisions for losses on loans and advances	**1,857**	**1,952**	**–95**
Provisions for contingent liabilities and irrevocable loan commitments	78	111	–33
Total	**1,935**	**2,063**	**–128**

Provisions for losses on loans and advances also include money market investments and reverse repos.

Development of Risk provisions for lending business in the financial year 2014 by risk assessment type

	Individually assessed risks	Risks assessed on a portfolio basis	Provisions for losses on loans and advances	Provisions (individual risks)	Provisions (portfolio risks)	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2014	**1,431**	**522**	**1,952**	**67**	**44**	**2,063**
Additions	587	54	642	8	6	656
Utilisation	–425	0	–425	0	0	–425
Reversals	–326	–59	–384	–48	–3	–436
Unwinding	–26	0	–26	0	0	–26
Exchange rate changes	82	17	99	3	2	104
As of 31 Dec. 2014	**1,323**	**535**	**1,857**	**30**	**48**	**1,935**

Risks assessed on a portfolio basis comprise both credit rating risks and country risks.

In 2014, EUR 67 million (2013: EUR 70 million) in interest income was not collected for impaired loans.

Development of Risk provisions for lending business in the financial year 2013 by risk assessment type

	Individually assessed risks	Risks assessed on a portfolio basis	Provisions for losses on loans and advances	Provisions (individual risks)	Provisions (portfolio risks)	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**1,449**	**529**	**1,979**	**69**	**50**	**2,097**
Additions	717	37	754	48	6	808
Utilisation	–328	0	–328	0	0	–328
Reversals	–334	–37	–371	–49	–11	–432
Unwinding	–32	0	–32	0	0	–32
Exchange rate changes	–42	–7	–49	–1	0	–50
As of 31 Dec. 2013	**1,431**	**522**	**1,952**	**67**	**44**	**2,063**

(44) Value adjustments from macro fair value hedge accounting

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Value adjustments to assets designated for macro fair value hedge accounting	18,461	11,663	6,797

The fair values attributable to the hedged risks in the hedged portfolios under the *loans and receivables* category are included in this item.

(45) Derivatives used for hedge accounting

Analysis of derivatives with positive fair values designated for hedge accounting by type of hedging relationship

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Micro fair value hedge accounting	28,431	15,989	12,442
Macro fair value hedge accounting	1,138	1,151	–13
Total	**29,569**	**17,140**	**12,429**

Analysis of derivatives with positive fair values designated for hedge accounting by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Interest-related derivatives	14,981	12,387	2,594
Currency-related derivatives	14,588	4,753	9,835
Total	**29,569**	**17,140**	**12,429**

Only Interest-related derivatives are designated for macro fair value hedge accounting. Cross-currency swaps are presented under Currency-related derivatives.

(46) Other derivatives

Analysis of Other derivatives with positive fair values by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Interest-related derivatives	5,964	3,838	2,126
Currency-related derivatives	2,856	2,861	–5
Miscellaneous	74	61	13
Total	**8,894**	**6,760**	**2,134**

Cross-currency swaps are presented under Currency-related derivatives.

Other derivatives include derivatives with positive fair values of EUR 134 million (31 Dec. 2013: EUR 134 million) attributable to embedded derivatives that are bifurcated.

(47) Securities and investments

Analysis of Securities and investments by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Bonds and other fixed-income securities	28,600	28,535	65
Shares and other non-fixed income securities	0	1	–1
Equity investments	2,114	2,032	83
Shares in subsidiaries not included in the consolidated financial statements	8	2	6
Total	**30,722**	**30,569**	**153**

Bonds and other fixed-income securities are recorded net of impairment losses that have already occurred but have not yet been individually identified.

(48) Investments accounted for using the equity method

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Investments accounted for using the equity method	178	149	29

The note regarding “Disclosures on shareholdings” contains a list of Investments accounted for using the equity method.

(49) Property, plant and equipment

Analysis of Property, plant and equipment by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Land and buildings	810	850	–39
Plant and equipment	71	66	5
Other property, plant and equipment	31	16	15
Total	**912**	**931**	**–19**

Payments in advance and assets under construction are presented in Other property, plant and equipment.

Development in Property, plant and equipment in the financial year 2014

	Acquisition/ production cost	Accumulated depreciation, impairment and reversal of impairment losses	Net carrying amount
	EUR in millions	EUR in millions	EUR in millions
Carrying amount as of 1 Jan. 2014	**1,201**	**–269**	**931**
Changes in consolidated group	2	–2	0
Additions/reversals of impairment losses	46	0	46
Disposals	–53	27	–27
Depreciation	0	–38	–38
Impairment losses	0	–1	–1
Carrying amount as of 31 Dec. 2014	**1,195**	**–283**	**912**

Development in Property, plant and equipment in the financial year 2013

	Acquisition/ production cost	Accumulated depreciation, impairment and reversal of impairment losses	Net carrying amount
	EUR in millions	EUR in millions	EUR in millions
Carrying amount as of 1 Jan. 2013	**1,172**	**–244**	**928**
Changes in consolidated group	0	0	0
Additions/reversals of impairment losses	40	0	40
Disposals	–12	10	–2
Depreciation	0	–34	–34
Impairment losses	0	0	0
Carrying amount as of 31 Dec. 2013	**1,201**	**–269**	**931**

(50) Intangible assets

Analysis of Intangible assets by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Software	116	95	21
Acquired software	*84*	66	*17*
Internally generated software	*32*	*29*	*4*
Other intangible assets	41	36	5
Total	**158**	**131**	**26**

Other intangible assets include, in particular, software under development.

Development in Intangible assets in the financial year 2014

	Acquisition/ production cost	Accumulated amortisation, impairment and reversal of impairment losses	Net carrying amount
	EUR in millions	EUR in millions	EUR in millions
Carrying amount as of 1 Jan. 2014	**209**	**–77**	**131**
Additions/reversals of impairment losses	55	0	55
Disposals	–11	7	–4
Amortisation	0	–20	–20
Impairment losses	0	–6	–6
Carrying amount as of 31 Dec. 2014	**254**	**–96**	**158**

Development in Intangible assets in the financial year 2013

	Acquisition/ production cost	Accumulated amortisation, impairment and reversal of impairment losses	Net carrying amount
	EUR in millions	EUR in millions	EUR in millions
Carrying amount as of 1 Jan. 2013	**142**	**–64**	**78**
Additions/reversals of impairment losses	70	0	70
Disposals	–3	3	0
Amortisation	0	–16	–16
Impairment losses	0	0	0
Carrying amount as of 31 Dec. 2013	**209**	**–77**	**131**

(51) Income tax assets

Analysis of Income tax assets by type

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Current income tax assets	11	26	–15
Deferred income tax assets	399	272	127
Total	**410**	**298**	**112**

Current income tax assets result from creditable taxes (investment income tax/solidarity surcharge) and tax receivables from advance tax payments during the reporting year.

Deferred income tax assets mostly result from valuation differences relating to the balance sheet items listed below.

Analysis of Deferred tax assets by balance sheet item

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Loans and advances to banks and customers (incl. risk provisions)	68	55	13
Securities and investments	7	4	3
Intangible assets	15	15	0
Other derivatives (liabilities)	254	132	122
Provisions	54	29	25
Other balance sheet items	1	11	–10
Tax loss carryforwards	0	26	–26
Subtotal	**399**	**272**	**127**
Offset against deferred tax liabilities	0	0	0
Total	**399**	**272**	**127**

The losses of KfW IPEX-Bank carried forward were utilised in full in 2014.

(52) Other assets

Analysis of Other assets by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Other assets and receivables	967	917	50
Prepaid and deferred charges	96	164	–68
Total	**1.063**	**1.081**	**–18**

(53) Liabilities to banks

Analysis of Liabilities to banks by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Promissory note loans	2,387	2,510	–122
Other financial liabilities	15,564	10,173	5,391
Total	**17,951**	**12,683**	**5,269**

Liabilities from repos, cash collateral received and the PROMISE and PROVIDE synthetic securitisation platforms are included in other financial liabilities.

(54) Liabilities to customers

Analysis of Liabilities to customers by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Money-market transactions	250	1,075	–825
Promissory note loans	6,251	6,438	–187
Other financial liabilities	3,580	3,793	–212
Total	**10,082**	**11,306**	**–1,224**

Liabilities from repos and cash collateral received are included in Other financial liabilities. Credit-linked notes issued via the PROMISE and PROVIDE synthetic securitisation platforms are included under Promissory note loans.

(55) Certificated liabilities

Analysis of Certificated liabilities by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Money-market issues	33,963	25,278	8,685
Bonds and notes	370,034	360,245	9,789
Total	**403,997**	**385,523**	**18,475**

(56) Value adjustments from macro fair value hedge accounting

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Value adjustments to liabilities under macro fair value hedge accounting	159	219	–60

The fair values attributable to hedged risks in the hedged portfolios in the *other liabilities* category are included in this item.

(57) Derivatives used for hedge accounting

Analysis of derivatives with negative fair values designated for hedge accounting by type of hedging relationship

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Micro fair value hedge accounting	3,223	8,431	–5,208
Macro fair value hedge accounting	22,271	15,216	7,055
Total	**25,495**	**23,648**	**1,847**

Analysis of derivatives with negative fair values designated for hedge accounting by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Interest-related derivatives	23,804	17,357	6,447
Currency-related derivatives	1,690	6,291	–4,600
Total	**25,495**	**23,648**	**1,847**

Only Interest-related derivatives are designated for macro fair value hedge accounting. Cross-currency swaps are presented under Currency-related derivatives.

(58) Other derivatives

Analysis of Other derivatives with negative fair values by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Interest-related derivatives	1,139	1,152	–13
Currency-related derivatives	1,836	3,412	–1,575
Miscellaneous	0	3	–3
Total	**2,975**	**4,566**	**–1,591**

Cross-currency swaps are presented under Currency-related derivatives.

Under Other derivatives are derivatives with negative fair values of EUR 21 million (31 Dec. 2013: EUR 4 million) attributable to embedded derivatives that are bifurcated.

(59) Provisions

Analysis of Provisions by type of obligation

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Provisions for pensions and similar commitments	1,955	1,391	564
Provisions for credit risks	78	111	–33
Other provisions	768	804	–35
Total	**2,801**	**2,306**	**496**

Development in Provisions for pensions and similar commitments in the financial year 2014

	Defined benefit obligations EUR in millions	Early retirement EUR in millions	Partial retirement EUR in millions	Total EUR in millions
As of 1 Jan. 2014	**1,338**	**43**	**10**	**1,391**
Additions	86	14	2	101
Current service cost	*41*	*13*	*1*	*55*
Past service cost	*0*	*0*	*0*	*0*
Interest cost	*45*	*1*	*1*	*46*
Other additions	*0*	*0*	*0*	*0*
Actuarial gains and losses	506	0	0	506
Changes in actuarial assumptions	*0*	*0*	*0*	*0*
Changes in financial assumptions	*475*	*0*	*0*	*475*
Changes in experience adjustments	*31*	*0*	*0*	*31*
Utilisation	–42	–4	–2	–48
Reversals	0	0	0	0
Transfers	0	–3	3	0
Contributions by participants (recognised in equity)	6	0	0	6
Changes in consolidated group	–1	0	0	–1
As of 31 Dec. 2014	**1,893**	**49**	**13**	**1,955**

The average residual term of the defined-benefit pension obligations is 19.4 years as of 31 December 2014 (31 Dec. 2013: 16.8 years).

Development in Provisions for pensions and similar commitments in the financial year 2013

	Defined benefit obligations	Early retirement	Partial retirement	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**1,244**	**53**	**12**	**1,309**
Additions	84	1	0	85
Current service cost	*40*	*1*	*0*	*41*
Past service cost	*0*	*0*	*0*	*0*
Interest cost	*43*	*0*	*0*	*43*
Other additions	*0*	*1*	*0*	*1*
Actuarial gains and losses	42	0	0	42
Changes in actuarial assumptions	*–6*	*0*	*0*	*–6*
Changes in financial assumptions	*46*	*0*	*0*	*46*
Changes in experience adjustments	*2*	*0*	*0*	*2*
Utilisation	–38	–4	–1	–43
Reversals	0	–3	–4	–7
Transfers	0	–4	3	–1
Contributions by participants (recognised in equity)	6	0	0	6
Changes in consolidated group	0	0	0	0
As of 31 Dec. 2013	**1,338**	**43**	**10**	**1,391**

Provisions for pensions and similar commitments are calculated on the basis of the 2005 G Heubeck actuarial tables and the following other actuarial assumptions:

Actuarial assumptions in % p. a.

	31 Dec. 2014	31 Dec. 2013
Technical discount rate	1.75	3.30
Rate of salary increases	3.00	3.00
Rate of pension increases	2.50	2.50
Rate of staff turnover	1.60	1.60

Sensitivity of defined-benefit pension obligations as of 31 December 2014

	Difference	Change in defined benefit obligations	Difference	Change in defined benefit obligations
		EUR in millions		EUR in millions
Life expectancy	+1 year	67	–1 year	–60
Technical discount rate	+0.25%	–91	–0.25%	99
Rate of salary increases	+0.50%	29	–0.50%	–27
Rate of pension increases	+0.50%	97	–0.50%	–88
Rate of staff turnover	+1.00%	–18	–1.00%	22

Sensitivity of defined-benefit pension obligations as of 31 December 2013

	Difference	Change in defined benefit obligations	Difference	Change in defined benefit obligations
		EUR in millions		EUR in millions
Life expectancy	+1 year	42	–1 year	–38
Technical discount rate	+0.25%	–56	–0.25%	60
Rate of salary increases	+0.50%	20	–0.50%	–19
Rate of pension increases	+0.50%	66	–0.50%	–60
Rate of staff turnover	+1.00%	–11	–1.00%	13

Development in Risk provisions for lending business

For the development in Risk provisions for lending business see the note regarding “Risk provisions for lending business”.

Development in Other provisions in the financial year 2014

	Obligations to employees	Other provisions	Total
	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2014	**26**	**778**	**804**
Additions	6	72	78
Interest cost	*0*	*0*	*0*
Other additions	*6*	*72*	*78*
Utilisation	–3	–56	–59
Reversals	0	–12	–12
Transfers	0	–41	–41
Exchange rate changes	0	1	1
Changes in consolidated group	–2	0	–2
As of 31 Dec. 2014	**28**	**740**	**768**

Obligations to employees includes other long-term employee benefits including provisions for service anniversaries. Corresponding actuarial reports have been prepared for these obligations.

An Other provision item in the amount of EUR 53 million (31 Dec. 2013: EUR 85 million) is reported due to the interest rate being below the market rate for irrevocable promotional loan commitments with additional promotional funds in the form of interest rate reductions impacting KfW's earnings position. Changes to existing provisions are presented as net additions or, in the case of a decline, as a transfer via the adjustments to the carrying amounts of already disbursed promotional loans recognised on the assets side under Loans and advances to banks or customers.

Other provisions also comprises obligations arising from the assumption of the operations of the State Insurance Company of the GDR in liquidation (*Staatliche Versicherung der Deutschen Demokratischen Republik in Abwicklung* – SinA (institution under public law)), which are offset by receivables in the same amount from the Federal Agency for Special Tasks Arising from Unification (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben* – BvS) recognised in Other assets.

Development in Other provisions in the financial year 2013

	Obligations to employees	Other provisions	Total
	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**24**	**793**	**817**
Additions	3	58	61
Interest cost	*0*	*0*	*0*
Other additions	*3*	*58*	*61*
Utilisation	–2	–27	–29
Reversals	0	–32	–33
Transfers	2	–14	–12
Exchange rate changes	0	0	0
Changes in consolidated group	0	0	0
As of 31 Dec. 2013	**26**	**778**	**804**

(60) Income tax liabilities

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Current income tax liabilities	64	33	31
Deferred income tax liabilities	256	144	113
Total	**320**	**177**	**114**

Current income tax liabilities as of 31 December 2014 primarily include tax provisions at the level of taxable companies included in KfW Group.

Development in tax provisions

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions
As of 1 Jan.	**33**	**23**
Additions	43	24
Utilisation	–22	–11
Reversals	0	–3
As of 31 Dec.	**55**	**33**

Deferred income tax liabilities mostly resulted from valuation differences relating to the balance sheet items listed below.

Analysis of deferred tax liabilities by balance sheet item

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Other derivatives (assets)	243	131	112
Securities and investments	1	1	0
Other balance sheet items	12	12	0
Subtotal	**256**	**144**	**112**
Offset against deferred tax assets	0	0	0
Total	**256**	**144**	**112**

(61) Other liabilities

Analysis of Other liabilities by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Other financial liabilities	1,093	1,148	–55
Deferred income	354	421	–67
Total	**1,447**	**1,569**	**–122**

(62) Subordinated liabilities

Analysis of Subordinated liabilities by class

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Subordinated liabilities	2,247	2,247	0

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 amount of EUR 3,247 million. The subordinated loan amounts to EUR 2,247 million following the addition of the subordinated loan in the amount of EUR 1,000 million to the capital reserve as of 31 December 2013. This 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 2017. Interest was charged on the tranches at an average rate of 3.45% in the financial year 2014 (2013: 3.41%).

(63) Equity

Analysis of Equity

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Subscribed capital	3,750	3,750	0
less uncalled outstanding contributions	–450	–450	0
Paid-in subscribed capital	**3,300**	**3,300**	**0**
Capital reserve	7,197	7,197	0
of which promotional reserves from the ERP Special Fund	*5,900*	*5,900*	*0*
Reserve from the ERP Special Fund	1,191	1,191	0
Retained earnings	10,019	8,613	1,405
Statutory reserve under Article 10 (2) KfW Law	*1,875*	*1,875*	*0*
Special reserve under Article 10 (3) KfW Law	*5,690*	*4,807*	*883*
Special reserve less the special loss account from provisioning pursuant to Section 17 (4) of the D-Mark Balance Sheet Law	*21*	*21*	*0*
Other retained earnings	*2,432*	*1,910*	*522*
Fund for general banking risks	500	400	100
Revaluation reserves	–608	–188	–420
Valuation gains/losses from available-for-sale financial assets (after tax)	*56*	*1*	*55*
Investments accounted for using the equity method	*0*	*–10*	*10*
Actuarial gains and losses from defined-benefit plan pension obligations (after tax)	*–664*	*–179*	*–485*
Total	**21,598**	**20,513**	**1,085**

Equity forms the basis for the capital available for covering risks, which are matched against the capital requirements derived from internal management.

For information concerning Equity in relation to risk-bearing capacity see Risk report in the Group management report.

(64) Gains and losses from financial instruments by measurement category

The following tables show an analysis of the results from financial instruments included in the various income statement items organised by measurement category. In addition to interest and similar income and expenses reported in Net interest and commission income and loan processing fees included in Net commission income, contributions to income include in particular the Risk provisions for lending business. Depending on measurement and designation for hedge accounting, the effects of fair value measurement, impairment losses, reversals of impairment losses and gains and losses from disposals are also included. The result from foreign currency translation is not included.

Gains and losses from financial instruments by measurement category in the financial year 2014

	Net interest income	Risk provisions for lending business	Net commission income	Net gains/losses from hedge accounting	Net gains/losses from other financial instruments at fair value through profit or loss	Net gains/losses from securities and investments	Net other operating income	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Loans and receivables	9,745	–143	115	6,967	0	40	0	16,724
Held-to-maturity investments	6	0	0	0	0	0	0	6
Other liabilities	–8,333	0	–34	–4,214	0	0	29	–12,553
Available-for-sale financial assets	340	0	0	146	0	–42	0	444
Financial assets at fair value through profit or loss	40	0	29	0	190	0	0	259
Financial liabilities at fair value through profit or loss	–913	0	–26	0	–2,029	0	0	–2,969
Derivatives used for hedge accounting	600	0	0	–2,726	0	0	0	–2,126
Other derivatives	985	0	0	0	1,691	0	0	2,676
Total	**2,470**	**–143**	**84**	**173**	**–148**	**–3**	**29**	**2,462**

Gains and losses from financial instruments by measurement category in the financial year 2013

	Net interest income	Risk provisions for lending business	Net commission income	Net gains/losses from hedge accounting	Net gains/losses from other financial instruments at fair value through profit or loss	Net gains/losses from securities and investments	Net other operating income	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Loans and receivables	10,179	–311	127	–7,350	0	44	0	2,689
Held-to-maturity investments	4	0	0	0	0	0	0	4
Other liabilities	–9,372	0	–36	7,663	0	0	3	–1,741
Available-for-sale financial assets	374	0	0	–260	0	–32	0	83
Financial assets at fair value through profit or loss	49	0	39	0	65	0	0	153
Financial liabilities at fair value through profit or loss	–935	0	–34	0	874	0	0	–95
Derivatives used for hedge accounting	1,034	0	0	109	0	0	0	1,143
Other derivatives	1,122	0	0	0	–877	0	0	245
Total	**2,457**	**–311**	**95**	**162**	**62**	**12**	**3**	**2,481**

(65) Balance sheet for financial instruments by measurement category

The following tables show the assets and liabilities from financial instruments included in the different balance sheet items organised by measurement category.

Financial assets by measurement category as of 31 December 2014

	Loans and advances to banks	Loans and advances to customers	Risk provisions for lending business	Value adjustments from macro fair value hedge accounting	Derivatives used for hedge accounting	Other derivatives	Securities and investments	Assets (financial instruments)	
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	in %
Loans and receivables	279,824	119,910	–1,857	18,461	0	0	6,815	423,153	87.1
Held-to-maturity investments	0	0	0	0	0	0	2,376	2,376	0.5
Available-for-sale financial assets	0	0	0	0	0	0	19,871	19,871	4.1
Financial assets at fair value through profit or loss	43	0	0	0	0	0	1,660	1,703	0.4
Derivatives used for hedge accounting	0	0	0	0	29,569	0	0	29,569	6.1
Other derivatives	0	0	0	0	0	8,894	0	8,894	1.8
Total	**279,867**	**119,910**	**–1,857**	**18,461**	**29,569**	**8,894**	**30,722**	**485,566**	**100.0**

Financial liabilities by measurement category as of 31 December 2014

	Liabilities to banks	Liabilities to customers	Certificated liabilities	Value adjustments from macro fair value hedge accounting	Derivatives used for hedge accounting	Other derivatives	Other liabilities	Subordinated liabilities	Liabilities (financial instruments)	
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	in %
Other financial liabilities	17,551	7,489	384,186	159	0	0	134	2,247	411,764	88.9
Financial liabilities at fair value through profit or loss	401	2,593	19,812	0	0	0	0	0	22,805	4.9
Derivatives used for hedge accounting	0	0	0	0	25,495	0	0	0	25,495	5.5
Other derivatives	0	0	0	0	0	2,975	0	0	2,975	0.6
Total	**17,951**	**10,082**	**403,997**	**159**	**25,495**	**2,975**	**134**	**2,247**	**463,039**	**100.0**

Financial assets by measurement category as of 31 December 2013

	Loans and advances to banks	Loans and advances to customers	Risk provisions for lending business	Value adjustments from macro fair value hedge accounting	Derivatives used for hedge accounting	Other derivatives	Securities and investments	Assets (financial instruments)	
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	in %
Loans and receivables	280,845	115,719	–1,952	11,663	0	0	9,163	415,438	90.2
Held-to-maturity investments	0	0	0	0	0	0	1,162	1,162	0.3
Available-for-sale financial assets	0	0	0	0	0	0	18,469	18,469	4.0
Financial assets at fair value through profit or loss	62	0	0	0	0	0	1,775	1,837	0.4
Derivatives used for hedge accounting	0	0	0	0	17,140	0	0	17,140	3.7
Other derivatives	0	0	0	0	0	6,760	0	6,760	1.5
Total	**280,906**	**115,719**	**–1,952**	**11,663**	**17,140**	**6,760**	**30,569**	**460,805**	**100.0**

Financial liabilities by measurement category as of 31 December 2013

	Liabilities to banks	Liabilities to customers	Certificated liabilities	Value adjustments from macro fair value hedge accounting	Derivatives used for hedge accounting	Other derivatives	Other liabilities	Subordinated liabilities	Liabilities (financial instruments)	
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	in %
Other financial liabilities	12,215	8,720	366,547	219	0	0	155	2,247	390,102	88.6
Financial liabilities at fair value through profit or loss	468	2,586	18,976	0	0	0	0	0	22,030	5.0
Derivatives used for hedge accounting	0	0	0	0	23,648	0	0	0	23,648	5.4
Other derivatives	0	0	0	0	0	4,566	0	0	4,566	1.0
Total	**12,683**	**11,306**	**385,523**	**219**	**23,648**	**4,566**	**155**	**2,247**	**440,346**	**100.0**

(66) Disclosures on the reclassification of financial assets

In 2008 and with retroactive effect from 1 July 2008, KfW Group reclassified bonds and other fixed-income securities recognised in Securities and investments (floating interest asset-backed securities) with a volume of EUR 2,750 million (fair value as of the date of reclassification) from the *available-for-sale financial assets* measurement category to the *loans and receivables* measurement category.

The following table shows the carrying amounts of the reclassified financial assets and their fair values:

	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions
Carrying amount (statement of financial position)	375	463
Fair value	381	452

For the reclassified financial assets a change of EUR 17 million (2013: EUR 25 million) in fair value would have been recorded directly in equity under Revaluation reserves. Net gains/losses from securities and investments of EUR 1 million (2013: EUR 14 million) would also have been recorded.

Net gains/losses from securities and investments include reversals of impairment losses and impairments on reclassified financial assets totalling EUR 1 million (2013: EUR 14 million); as in the financial year 2013, no realised gains and losses were recorded. Interest income from the reclassified securities is still recognised in the same manner.

In 2009, in accordance with a prospective resolution taking effect on 17 February 2009, bonds and other fixed-income securities recognised in Securities and investments (which serve to maintain liquidity through the use of repo transactions or open market transactions of the European Central Bank) with a volume of EUR 18,170 million (fair value as of the date of reclassification) were reclassified from the *available-for-sale financial assets* measurement category to the *loans and receivables* measurement category.

The following table shows the carrying amounts of the reclassified financial assets and their fair values:

	31 Dec. 2014	31 Dec. 2013
	EUR in millions	EUR in millions
Carrying amount (statement of financial position)	2,573	4,911
Fair value	2,597	4,917

For the reclassified financial assets, a change of EUR 15 million (2013: EUR 102 million) in fair value would have been recorded directly in equity under Revaluation reserves. Net gains/losses from securities and investments of an unchanged EUR –2 million would also have been recorded.

Net gains/losses from securities and investments include realised gains and losses of EUR –2 million (previous year: EUR 0 million) as well as reversals of impairments losses and impairment charges taken on reclassified financial assets of EUR 9 million (2013: EUR 11 million). Interest income from the reclassified securities is still recognised in the same manner.

(67) Fair values of financial instruments

In the following tables, the fair values of financial instruments are compared with their carrying amounts. The fair value of the additional balances with central banks recognised in Cash reserves is their carrying amount. Existing Risk provisions for lending business are deducted from the carrying amounts of Loans and advances to banks and customers. The carrying amount of the Subordinated liabilities comprises pro rata interest and value adjustments from micro fair value hedge accounting reported in the Other liabilities line item.

Fair values of financial instruments as of 31 December 2014

	Fair value	Carrying amount (statement of financial position)	Difference
	EUR in millions	EUR in millions	EUR in millions
Loans and advances to banks	298,373	279,707	18,666
Loans and advances to customers	122,002	118,213	3,789
Value adjustments from macro fair value hedge accounting	0	18,461	–18,461
Derivatives used for hedge accounting	29,569	29,569	0
Other derivatives	8,894	8,894	0
Securities and investments	30,767	30,722	45
Assets	**489,605**	**485,566**	**4,039**
Liabilities to banks	18,083	17,951	132
Liabilities to customers	10,387	10,082	305
Certificated liabilities	408,120	403,997	4,122
Value adjustments from macro fair value hedge accounting	0	159	–159
Derivatives used for hedge accounting	25,495	25,495	0
Other derivatives	2,975	2,975	0
Subordinated liabilities	2,390	2,380	9
Liabilities	**467,450**	**463,039**	**4,410**

Interest-related changes in value are also included in measuring the fair value of the financial instruments. Accordingly, when the comparison is made with the carrying amount, it is necessary to take account of the changes in value (interest-related) resulting from the recognition of Loans and advances and borrowings in macro fair value hedge accounting.

Equity instruments included in Securities and investments, for which the fair value could not be reliably determined, are measured at cost less impairment losses in the amount of EUR 782 million (31 Dec. 2013: EUR 771 million); disposal in the subsequent year is possible on a case-by-case basis.

Fair values of financial instruments as of 31 December 2013

	Fair value	Carrying amount (statement of financial position)	Difference
	EUR in millions	EUR in millions	EUR in millions
Loans and advances to banks	291,568	280,747	10,821
Loans and advances to customers	116,369	113,926	2,443
Value adjustments from macro fair value hedge accounting	0	11,663	–11,663
Derivatives used for hedge accounting	17,140	17,140	0
Other derivatives	6,760	6,760	0
Securities and investments	30,561	30,569	–8
Assets	**462,398**	**460,805**	**1,593**
Liabilities to banks	12,749	12,683	66
Liabilities to customers	11,825	11,306	518
Certificated liabilities	386,882	385,523	1,359
Value adjustments from macro fair value hedge accounting	0	219	–219
Derivatives used for hedge accounting	23,648	23,648	0
Other derivatives	4,566	4,566	0
Subordinated liabilities	2,410	2,402	8
Liabilities	**442,079**	**440,346**	**1,733**

(68) Disclosures on methods used to measure financial instruments at fair value

The following tables show the financial instruments measured at fair value or for which the fair value is indicated in the Notes, according to the valuation methods used.

Financial instruments measured at fair value are allocated using the following valuation methods:

Financial instruments allocated to the "Quoted market price" level are primarily bonds and other fixed-income securities recognised in Securities and investments, for which prices from an active market are available.

Fair value measurement of OTC derivatives as well as borrowings accounted for under the *fair value option* is largely performed using valuation models with inputs that are observable on the market and are also usually the only relevant inputs, resulting in allocation to the "Valuation method based on observable market data (model)" level.

The "Valuation method based in part on market unobservable data" level largely comprises derivatives recognised in Other derivatives with positive or negative fair values, which comprise a hedging instrument for clients with respect to export and project financing business, as well as Securities and investments from equity finance business recorded at fair value through profit or loss, which are not listed or for which prices cannot be derived from similar financial instruments listed on an exchange.

Equity instruments included in Securities and investments – available-for-sale, for which the fair value could not be reliably determined, are also allocated to the "Valuation method based in part on market unobservable data" level.

Financial instruments carried at amortised cost, for which the fair value is indicated in the Notes, are allocated to the valuation methods used as follows:

The lending business presented under Loans and advances to banks and Loans and advances to customers is allocated to "Valuation method based in part on market unobservable data". The measurement of fair value using the discounted cash flow method is based to a significant extent on market unobservable data (expected loss, etc.).

The bonds and other fixed-income securities reported under Certificated liabilities are primarily allocated to the "Quoted market price" level. These include in particular KfW's large volume and highly liquid benchmark bonds denominated in euros and US dollars.

In subsequent measurement at fair value in line with the applicable hierarchy, changes of valuation method used are deemed to have been made as of the end of the financial year, because no specific event (and therefore no specific date) can generally be identified as the cause of the change of valuation method used.

Financial assets measured at fair value or for which the fair value is indicated in the Notes, as of 31 December 2014

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on market unob-servable data	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Financial assets measured at fair value				
Loans and advances to banks – recorded at fair value through profit or loss	0	31	12	43
Derivatives used for hedge accounting	0	29,569	0	29,569
Other derivatives	0	8,056	838	8,894
Securities and investments – available for sale	18,336	751	783	19,871
Securities and investments – recorded at fair value through profit or loss	222	982	456	1,660
Subtotal of financial assets measured at fair value	**18,557**	**39,389**	**2,090**	**60,037**
Fair values of financial assets carried at amortised cost				
Loans and advances to banks – loans and receivables	0	28,497	269,833	298,330
Loans and advances to customers – loans and receivables	0	3,328	118,674	122,002
Securities and investments – loans and receivables	2,983	3,743	131	6,857
Securities and investments – held-to-maturity investments	2,223	157	0	2,380
Subtotal of fair values of financial assets carried at amortised cost	**5,205**	**35,726**	**388,638**	**429,569**
Total	**23,763**	**75,115**	**390,728**	**489,605**

Financial liabilities measured at fair value or for which the fair value is indicated in the Notes, as of 31 December 2014

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on market unobservable data	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Financial liabilities measured at fair value				
Liabilities to banks – recorded at fair value through profit or loss	0	389	12	401
Liabilities to customers – recorded at fair value through profit or loss	0	2,521	72	2,593
Certificated liabilities – recorded at fair value through profit or loss	672	19,140	0	19,812
Derivatives used for hedge accounting	0	25,493	2	25,495
Other derivatives	0	2,969	7	2,975
Subtotal of financial liabilities measured at fair value	**672**	**50,511**	**92**	**51,275**
Fair values of financial liabilities carried at amortised cost				
Liabilities to banks – other liabilities	0	16,299	1,383	17,682
Liabilities to customers – other liabilities	0	4,276	3,518	7,794
Certificated liabilities – other liabilities	338,558	49,750	0	388,308
Subordinated liabilities – other liabilities	0	2,390	0	2,390
Subtotal of fair values of financial liabilities carried at amortised cost	**338,558**	**72,715**	**4,901**	**416,174**
Total	**339,230**	**123,226**	**4,993**	**467,450**

Financial assets measured at fair value or for which the fair value is indicated in the Notes, as of 31 December 2013

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on market unobservable data	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Financial assets measured at fair value				
Loans and advances to banks – recorded at fair value through profit or loss	0	38	24	62
Derivatives used for hedge accounting	0	17,140	0	17,140
Other derivatives	3	6,340	417	6,760
Securities and investments – available for sale	15,835	1,862	773	18,469
Securities and investments – recorded at fair value through profit or loss	416	976	383	1,775
Subtotal of financial assets measured at fair value	**16,254**	**26,355**	**1,596**	**44,206**
Fair values of financial assets carried at amortised cost				
Loans and advances to banks – loans and receivables	0	32,879	258,627	291,507
Loans and advances to customers – loans and receivables	0	2,695	113,674	116,369
Securities and investments – loans and receivables	3,243	5,768	142	9,154
Securities and investments – held-to-maturity investments	601	562	0	1,164
Subtotal of fair values of financial assets carried at amortised cost	**3,844**	**41,906**	**372,443**	**418,193**
Total	**20,098**	**68,261**	**374,040**	**462,398**

Financial liabilities measured at fair value or for which the fair value is indicated in the Notes, as of 31 December 2013

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on market unobservable data	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Financial liabilities measured at fair value				
Liabilities to banks – recorded at fair value through profit or loss	0	444	24	468
Liabilities to customers – recorded at fair value through profit or loss	0	2,501	85	2,586
Certificated liabilities – recorded at fair value through profit or loss	234	18,742	0	18,976
Derivatives used for hedge accounting	0	23,644	4	23,648
Other derivatives	3	4,520	44	4,566
Subtotal of financial liabilities measured at fair value	**236**	**49,851**	**156**	**50,244**
Fair values of financial liabilities carried at amortised cost				
Liabilities to banks – other liabilities	0	10,744	1,537	12,281
Liabilities to customers – other liabilities	0	5,486	3,752	9,238
Certificated liabilities – other liabilities	320,349	47,557	0	367,906
Subordinated liabilities – other liabilities	0	2,410	0	2,410
Subtotal of fair values of financial liabilities carried at amortised cost	**320,349**	**66,196**	**5,289**	**391,835**
Total	**320,585**	**116,048**	**5,446**	**442,079**

Change of valuation method used for financial assets measured at fair value with a transfer between the "Quoted market price" and "Valuation method based on observable market data (model)" levels in the financial year 2014

	Transfers from "Quoted market price" to "Valuation method based on observable market data (model)"	Transfers from "Valuation method based on observable market data (model)" to "Quoted market price"
	EUR in millions	EUR in millions
Securities and investments – available for sale	88	749
Securities and investments – recorded at fair value through profit or loss	221	28

The transfers within Securities and investments are a result of changes in market activity as of the reporting date.

Change of valuation method used for financial liabilities measured at fair value with a transfer between the "Quoted market price" and "Valuation method based on observable market data (model)" levels in the financial year 2014

	Transfers from "Quoted market price" to "Valuation method based on observable market data (model)"	Transfers from "Valuation method based on observable market data (model)" to "Quoted market price"
	EUR in millions	EUR in millions
Certificated liabilities – recorded at fair value through profit or loss	0	600

Change of valuation method used for financial assets measured at fair value with a transfer between the "Quoted market price" and "Valuation method based on observable market data (model)" levels in the financial year 2013

	Transfers from "Quoted market price" to "Valuation method based on observable market data (model)"	Transfers from "Valuation method based on observable market data (model)" to "Quoted market price"
	EUR in millions	EUR in millions
Securities and investments–available for sale	1,603	0
Securities and investments–recorded at fair value through profit or loss	160	0

There were no transfers between the "Quoted market price" and "Valuation method based on observable market data (model)" levels of financial liabilities measured at fair value in the previous financial year.

Development of financial assets measured at fair value in the financial year 2014, using valuation methods based in part on market unobservable data

	Loans and advances to banks – recorded at fair value through profit or loss	Loans and advances to customers – recorded at fair value through profit or loss	Derivatives used for hedge accounting	Other derivatives	Securities and investments – available for sale	Securities and investments – recorded at fair value through profit or loss	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2014	**24**	**0**	**0**	**417**	**773**	**383**	**1,596**
A. Changes recognised in the income statement							
Net interest and commission income	0	0	0	–2	0	0	–2
Contracts still valid at year-end	*0*	*0*	*0*	*–1*	*0*	*0*	*–1*
Net gains/losses from hedge accounting	0	0	0	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Net gains/losses from other financial instruments at fair value through profit or loss	–12	0	0	315	0	–6	297
Contracts still valid at year-end	*–7*	*0*	*0*	*306*	*0*	*–16*	*283*
Net gains/losses from securities and investments	0	0	0	0	–52	0	–52
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*–36*	*0*	*–36*
Change in revaluation reserves	0	0	0	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total changes recognised in the income statement	**–12**	**0**	**0**	**313**	**–52**	**–6**	**243**
B. Changes recognised directly in equity							
Change of valuation method used	0	0	0	0	0	41	41
Transfers from "Quoted market price" and "Valuation method based on observable market data (model)"	0	0	0	0	0	97	97
Transfers to "Quoted market price" and "Valuation method based on observable market data (model)"	0	0	0	0	0	–57	–57
Additions	0	0	0	18	143	53	214
Disposals	0	0	0	–1	–89	–22	–112
Total changes recognised directly in equity	**0**	**0**	**0**	**18**	**54**	**72**	**144**
Changes in consolidated group	0	0	0	0	8	0	8
Exchange rate changes	0	0	0	–20	0	7	–12
Other changes	0	0	0	110	1	0	111
As of 31 Dec. 2014	**12**	**0**	**0**	**838**	**783**	**456**	**2,090**

Development of financial liabilities measured at fair value in the financial year 2014, using valuation methods based in part on market unobservable data

	Liabilities to banks – recorded at fair value through profit or loss	Liabilities to customers – recorded at fair value through profit or loss	Derivatives used for hedge accounting	Other derivatives	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2014	**24**	**85**	**4**	**44**	**156**
A. Changes recognised in the income statement					
Net interest and commission income	9	0	0	–1	8
Contracts still valid at year-end	*8*	*–1*	*0*	*–2*	*5*
Net gains/losses from hedge accounting	0	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*0*
Net gains/losses from other financial instruments at fair value through profit or loss	–12	–8	0	–144	–164
Contracts still valid at year-end	*–7*	*–8*	*0*	*–135*	*–150*
Total changes recognised in the income statement	**–4**	**–8**	**0**	**–145**	**–156**
B. Changes recognised directly in equity					
Change of valuation method used	0	0	0	0	0
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0	0
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	–8	–5	0	0	–14
Total changes recognised directly in equity	**–8**	**–5**	**0**	**0**	**–14**
Changes in consolidated group	0	0	0	0	0
Exchange rate changes	0	0	–2	–2	–4
Other changes	0	0	0	110	110
As of 31 Dec. 2014	**12**	**72**	**2**	**7**	**92**

Development of financial assets measured at fair value in the financial year 2013, using valuation methods based in part on market unobservable data

	Loans and advances to banks – recorded at fair value through profit or loss	Loans and advances to customers – recorded at fair value through profit or loss	Derivatives used for hedge accounting	Other derivatives	Securities and investments – available for sale	Securities and investments – recorded at fair value through profit or loss	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**184**	**0**	**0**	**704**	**748**	**415**	**2,051**
A. Changes recognised in the income statement							
Net interest and commission income	0	0	0	1	0	0	1
Contracts still valid at year-end	*0*	*0*	*0*	*1*	*0*	*0*	*1*
Net gains/losses from hedge accounting	0	0	0	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Net gains/losses from other financial instruments at fair value through profit or loss	–160	0	0	–273	0	25	–409
Contracts still valid at year-end	*–20*	*0*	*0*	*–254*	*0*	*42*	*–231*
Net gains/losses from securities and investments	0	0	0	0	–31	0	–31
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*–22*	*0*	*–22*
Change in revaluation reserves	0	0	0	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total changes recognised in the income statement	**–160**	**0**	**0**	**–273**	**–31**	**25**	**–438**
B. Changes recognised directly in equity							
Change of valuation method used	0	0	0	0	0	–16	–16
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0	0	75	75
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0	0	–91	–91
Additions	0	0	0	13	147	7	167
Disposals	0	0	0	–33	–82	–21	–136
Total changes recognised directly in equity	**0**	**0**	**0**	**–20**	**65**	**–30**	**15**
Changes in consolidated group	0	0	0	0	0	0	0
Exchange rate changes	0	0	0	–7	–9	–27	–44
Other changes	0	0	0	13	0	0	12
As of 31 Dec. 2013	**24**	**0**	**0**	**417**	**773**	**383**	**1,596**

Development of financial liabilities measured at fair value in the financial year 2013, using valuation methods based in part on market unobservable data

	Liabilities to banks – recorded at fair value through profit or loss	Liabilities to customers – recorded at fair value through profit or loss	Derivatives used for hedge accounting	Other derivatives	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2013	**184**	**109**	**3**	**5**	**302**
A. Changes recognised in the income statement					
Net interest and commission income	0	–4	0	–2	–6
Contracts still valid at year-end	*0*	*–5*	*0*	*–2*	*–7*
Net gains/losses from hedge accounting	0	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*	*0*
Net gains/losses from other financial instruments at fair value through profit or loss	–152	–8	0	24	–136
Contracts still valid at year-end	*–12*	*–7*	*0*	*24*	*5*
Total changes recognised in the income statement	**–152**	**–12**	**0**	**22**	**–142**
B. Changes recognised directly in equity					
Change of valuation method used	0	0	0	0	0
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0	0
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	–8	–11	0	0	–19
Total changes recognised directly in equity	**–8**	**–11**	**0**	**0**	**–19**
Changes in consolidated group	0	0	0	0	0
Exchange rate changes	0	0	0	4	4
Other changes	0	0	0	13	13
As of 31 Dec. 2013	**24**	**85**	**4**	**44**	**156**

In accordance with the valuation method defined for KfW Group, the fair value reported in the statement of financial position is the best evidence of the fair value for those financial instruments allocated to the “Valuation method based in part on market unobservable data” level.

The following tables show how an alternative determination of relevant market unobservable data, i. e. values in best and worst case scenarios would impact fair values for significant products allocated to this level.

Major products	Valuation method used	Relevant market unobservable data with alternative determination	Range
Derivatives with positive or negative fair values, which comprise a hedging instrument for clients with respect to export and project financing business	Discounted cash flow method	Expected risk-free customer margin	8 % to 14 %
Securities and investments from equity finance accounted for at fair value through profit or loss	Discounted cash flow method	Cost of capital Long-term result	0.5 % to 1.5 % (absolute fluctuation) 5 % (relative fluctuation)

Sensitivity analysis for the financial assets measured at fair value, using valuation methods based in part on market unobservable data as of 31 December 2014

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Other derivatives – with positive fair values	849	838	828
Securities and investments – recorded at fair value through profit or loss	509	456	395
Total	**1,358**	**1,294**	**1,223**

Sensitivity analysis for the financial liabilities measured at fair value, using valuation methods based in part on market unobservable data as of 31 December 2014

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Other derivatives – with negative fair values	7	7	7

Sensitivity analysis for the financial assets measured at fair value, using valuation methods based in part on market unobservable data as of 31 December 2013

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Other derivatives – with positive fair values	421	417	413
Securities and investments – recorded at fair value through profit or loss	424	383	340
Total	**845**	**800**	**753**

Sensitivity analysis for the financial liabilities measured at fair value, using valuation methods based in part on market unobservable data as of 31 December 2013

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Other derivatives – with negative fair values	43	44	45

(69) Additional disclosures on Liabilities to banks

Disclosures on Liabilities to banks designated at fair value through profit or loss

(fair value option)

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Carrying amount	303	292	11
Repayment at maturity	370	421	–51
Difference	**66**	**128**	**–62**

Of the difference between the repayment amount at maturity and the carrying amount, EUR 49 million (31 Dec. 2013: EUR 60 million) is attributable to borrowings for which the repayment amount builds up as a result of the capitalisation over time of interest due.

(70) Additional disclosures on Liabilities to customers

Disclosures on Liabilities to customers designated at fair value through profit or loss *(fair value option)*

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Carrying amount	2,593	2,586	7
Repayment at maturity	4,888	5,334	–446
Difference	**2,295**	**2,748**	**–452**

Of the difference between the repayment amount at maturity and the carrying amount, EUR 2,239 million (31 Dec. 2013: EUR 2,627 million) is attributable to borrowings for which the repayment amount builds up as a result of the capitalisation over time of interest due.

(71) Additional disclosures on Certificated liabilities

Disclosures on certificated liabilities designated at fair value through profit or loss *(fair value option)*

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Carrying amount	19,812	18,976	836
Repayment at maturity	21,675	23,046	–1,371
Difference	**1,864**	**4,070**	**–2,207**

Of the difference between the repayment amount at maturity and the carrying amount, EUR 4,353 million (31 Dec. 2013: EUR 5,666 million) is attributable to borrowings for which the repayment amount builds up as a result of the capitalisation over time of interest due.

(72) Additional disclosures on financial liabilities designated at fair value through profit or loss
(fair value option)

The valuation effects resulting from changes in fair value due to changes in KfW's funding conditions included in Net gains/losses from other financial instruments at fair value through profit or loss amount to EUR –148 million (2013: EUR 30 million). The cumulative effect amounts to EUR –209 million (31 Dec. 2013: EUR –61 million).

These valuation effects include in particular the market-related changes in KfW's funding conditions generated by the development of demand for various KfW funding instruments.

(73) Additional disclosures on derivatives
Analysis of derivatives by class

	Par value		Fair value 31 Dec. 2014		Fair value 31 Dec. 2013	
	31 Dec. 2014	31 Dec. 2013	positive	negative	positive	negative
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Interest-related derivatives	467,585	456,567	20,942	24,933	16,223	18,508
Currency-related derivatives	218,125	212,058	17,385	3,516	7,540	9,699
Other derivatives	0	11	1	0	3	3
Total	**685,711**	**668,636**	**38,329**	**28,449**	**23,766**	**28,210**

Cross-currency swaps are presented under Currency-related derivatives.

Analysis of derivatives by counterparty

	Par value		Fair value 31 Dec. 2014		Fair value 31 Dec. 2013	
	31 Dec. 2014	31 Dec. 2013	positive	negative	positive	negative
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OECD banks	676,358	633,486	37,479	27,954	22,857	25,043
Non-OECD banks	26	26	0	3	0	3
Other counterparties	6,447	31,924	786	169	902	2,937
Public sector	2,879	3,200	64	322	7	227
Total	**685,711**	**668,636**	**38,329**	**28,449**	**23,766**	**28,210**

The analysis includes stand-alone financial derivatives which are presented in the items Derivatives used for hedge accounting and Other derivatives.

The volume of initial differences between the transaction price and model value arising from the use of a valuation technique that makes significant use of market unobservable data which have yet to be amortised over the life of the financial instrument amounts to EUR 64 million (31 Dec. 2013: EUR 53 million). The net gains/losses from derivatives not qualifying for hedge accounting includes amortisation effects in the amount of EUR 7 million (2013: EUR 6 million).

The economic hedge effect of financial derivatives with an aggregate principal amount of EUR 631.3 billion (31 Dec. 2013: EUR 617.5 billion) is presented in accordance with IAS 39; the risk-mitigating impact of the remaining financial derivatives is not reflected in the accounts.

KfW Group did not pledge any collateral (in the form of securities) under derivative transactions that can be resold or repledged at any time without payments being past due, which was unchanged to 31 December 2013.

However, liquid collateral totalling EUR 3,719 million was provided, which was reported under Loans and advances to banks and customers. KfW Group received collateral (in the form of securities) under derivative transactions, which can be resold or repledged at any time without payments being past due by the protection seller. The fair value of this collateral totalled EUR 140 million. The collateral has been neither resold nor repledged. No such collateral was accepted in 2013.

Moreover, provision of liquid collateral totalling EUR 13,922 million (31 Dec. 2013: EUR 7,994 million) was accepted, which was reported under Liabilities to banks and customers.

(74) Additional disclosures on the PROMISE/PROVIDE synthetic securitisation platforms

KfW Group did not receive any collateral (in the form of securities) under platform transactions that can be resold or repledged at any time without payments being past due by the protection seller, which was unchanged to 31 December 2013.

However, provision of liquid collateral totalling EUR 48 million (31 Dec. 2013: EUR 108 million) was accepted, which was reported under Liabilities to banks and customers.

(75) Disclosures on repurchase agreements

Disclosures on repo transactions

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Carrying amount of securities sold under repo transactions that continue to be recognised in Securities and investments	398	555	–157
Liabilities to banks (countervalue)	398	557	–159

The fair value of securities sold under repo transactions that continue to be recognised in Securities and investments totals EUR 398 million (31 Dec. 2013: EUR 555 million). The fair value of the corresponding repayment obligations is also EUR 398 million (31 Dec. 2013: EUR 557 million), resulting in an almost balanced net position of EUR 1 million (31 Dec. 2013: EUR 1 million).

KfW Group did not pledge any collateral (in the form of securities) under repo transactions that can be resold or repledged at any time without payments being past due, which was unchanged to 31 December 2013.

KfW Group did not receive any collateral (in the form of securities) under repo transactions that can be resold or repledged at any time without payments being past due, which was unchanged to 31 December 2013.

No liquid collateral was provided, which was unchanged to 31 December 2013.

Disclosures on reverse repo transactions

	31 Dec. 2014 EUR in millions	31 Dec. 2013 EUR in millions	Change EUR in millions
Loans and advances to banks (countervalue)	19,935	25,744	–5,809
Loans and advances to customers (countervalue)	2,351	2,300	50
Total	**22,285**	**28,044**	**–5,759**

Securities purchased under reverse repos are not recognised.

KfW Group pledged collateral (in the form of securities) under reverse repo transactions which could be resold or repledged at any time without payments being past due. The carrying amount of this collateral totalled EUR 3 million (31 Dec. 2013: EUR 2 million).

However, liquid collateral totalling EUR 1 million was provided in the previous year, which was reported under Loans and advances to banks and customers. No such collateral was pledged in the reporting year.

KfW Group did not receive any collateral (in the form of securities) under reverse repo transactions that can be resold or repledged at any time without payments being past due, which was unchanged to 31 December 2013.

However, liquid collateral totalling EUR 1 million was accepted in the previous year, which was reported under Liabilities to banks and customers. No such collateral was accepted in the reporting year.

(76) Disclosure on offsetting financial instruments

Offsetting agreements within framework agreements between KfW and its business partners

Framework agreements between KfW and its business partners include offsetting agreements relating to OTC derivatives and repo transactions.

One form of netting is close-out netting, which provides for the extinction of all rights and obligations relating to individual transactions under the framework agreement upon termination of said framework agreement by the contractual partner, or upon the latter's insolvency, with the rights and obligations replaced by a single compensation claim (or obligation) in the amount of the net replacement costs of the terminated individual transactions. This does not represent a present legal claim for offsetting.

Close-out netting is not to be confused with the offsetting of payments in normal business. The same framework agreement provides for the latter case, that payments due on the same day and in the same currency may be offset and a net payment made instead of each individual payment (payment netting). This represents a present legal claim for offsetting.

KfW's framework agreements relating to OTC derivatives all include close-out netting agreements with the contractual partners. Payment netting is limited in the agreement to the relevant individual transaction, so that multiple transaction payment netting does not occur. The requirements for offsetting financial assets and financial liabilities are therefore not met for KfW's OTC derivatives.

KfW's framework agreements for repo transactions include close-out netting agreements and in some cases also payment netting agreements with the business partners. However, as KfW does not generally perform multiple transaction payment netting with repo transactions either, the requirements for offsetting of financial assets and financial liabilities are not met for KfW repo transactions.

In accordance with the collateral agreements concluded for OTC derivatives and repo transactions, the values of the available collateral are used in determining the single compensation claim (or obligation) in close-out netting. Both cash and securities are permitted forms of collateral under the existing collateral agreements between KfW and its business partners. The collateral agreements provide for a transfer of title in the case of securities as collateral. Consequently, the transferred securities are not subject to any selling or pledging restrictions.

Disclosures on financial assets with netting agreements as of 31 December 2014

	Carrying amount of financial assets before offsetting (gross amount)	Netted figure as carrying amount of financial liabilities (gross amount)	Reported financial assets (net amount)	Carrying amount of non-offsettable financial liabilities	Fair value of collateral received	Total net amount
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OTC derivatives	37,512	0	37,512	21,726	14,012	1,773
Reverse repos	22,285	0	22,285	385	21,900	0
Total	**59,797**	**0**	**59,797**	**22,112**	**35,912**	**1,773**

Disclosures on financial liabilities with netting agreements as of 31 December 2014

	Carrying amount of financial liabilities before offsetting (gross amount)	Netted figure as carrying amount of financial assets (gross amount)	Reported financial liabilities (net amount)	Carrying amount of non-offsettable financial assets	Fair value of collateral pledged	Total net amount
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OTC derivatives	27,950	0	27,950	21,726	3,500	2,723
Repos	398	0	398	385	13	0
Total	**28,348**	**0**	**28,348**	**22,112**	**3,513**	**2,723**

In addition to the net amount, the items Derivatives used for hedge accounting and Other derivatives also include bifurcated embedded derivatives not subject to netting agreements.

Receivables from reverse repo transactions are reported under Loans and advances to banks and customers, and liabilities from repo transactions under Liabilities to banks.

Disclosures on financial assets with netting agreements as of 31 December 2013

	Carrying amount of financial assets before offsetting (gross amount)	Netted figure as carrying amount of financial liabilities (gross amount)	Reported financial assets (net amount)	Carrying amount of non-offsettable financial liabilities	Fair value of collateral received	Total net amount
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OTC derivatives	23,403	0	23,403	15,564	7,576	263
Reverse repos	28,044	0	28,044	322	27,721	1
Total	**51,447**	**0**	**51,447**	**15,886**	**35,297**	**264**

Disclosures on financial liabilities with netting agreements as of 31 December 2013

	Carrying amount of financial liabilities before offsetting (gross amount)	Netted figure as carrying amount of financial assets (gross amount)	Reported financial liabilities (net amount)	Carrying amount of non-offsettable financial assets	Fair value of collateral pledged	Total net amount
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OTC derivatives	26,125	0	26,125	15,564	0	10,561
Repos	557	0	557	322	234	1
Total	**26,682**	**0**	**26,682**	**15,886**	**234**	**10,562**

Other notes

(77) Contingent liabilities and irrevocable loan commitments

Analysis of contingent liabilities by class

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Contingent liabilities from financial guarantees	3,501	3,654	-153
Contingent liabilities from PROMISE/PROVIDE securitisation platforms	925	1,364	-438
Performance guarantees	14	16	-2
Other contingent liabilities	1,166	968	198
Total	**5,606**	**6,001**	**-395**

Other contingent liabilities include payment obligations attributable to equity investments which are not fully paid up and do not have to be consolidated. According to IAS 37.92 there is no need for further disclosure of additional contingent liabilities.

Volume of irrevocable loan commitments

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Irrevocable loan commitments	60,048	55,723	4,324

The Irrevocable loan commitments are mainly attributable to the domestic promotional lending business.

(78) Trust activities and administered loans

Analysis of trust activities by class (transactions in KfW's own name but for the account of third parties)

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Loans and advances to banks	1,158	1,970	-812
Loans and advances to customers	13,290	13,748	-458
Securities and investments	3,363	3,186	177
Assets held in trust	**17,810**	**18,903**	**-1,093**
Liabilities to banks	5	6	-1
Liabilities to customers	17,805	18,897	-1,092
Liabilities held in trust	**17,810**	**18,903**	**-1,093**

EUR 12,832 million (31 Dec. 2013: EUR 13,765 million) of the assets held in trust are attributable to the business sector regarding Promotion of developing and transition countries.

Volume of administered loans granted (loans in the name and for the account of third parties)

	31 Dec. 2014	31 Dec. 2013	Change
	EUR in millions	EUR in millions	EUR in millions
Administered loans	10,336	9,440	896

(79) Leasing transactions as lessee

Disclosures on lessee agreements as of 31 December 2014

	Due within one year	Due in between one and five years	Due in more than five years	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Operating leases				
Future minimum leasing payments	14	35	34	82

Disclosures on lessee agreements as of 31 December 2013

	Due within one year	Due in between one and five years	Due in more than five years	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Operating leases				
Future minimum leasing payments	12	24	9	45

(80) Average number of employees during the financial year

	2014	2013	Change
Employees (female)	2,712	2,638	74
Employees (male)	2,806	2,736	70
Total	**5,518**	**5,374**	**144**
Staff not covered by collective agreements	*3,831*	*3,728*	*103*
Staff covered by collective agreements	*1,687*	*1,646*	*41*

The average number of employees includes temporary staff but excludes members of the Executive Board and trainees and was calculated based on the levels at the end of each quarter.

(81) Compensation report

The compensation report describes the basic structure of the remuneration plan for the Executive Board and Board of Supervisory Directors; it also discloses their remuneration on an individual member basis.

Overview of total compensation of members of the Executive Board and Board of Supervisory Directors

	2014	2013	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Executive Board	4,217.7	3,866.8	350.9
Former members of the Executive Board and their surviving dependants	4,141.1	3,954.8	186.3
Members of the Board of Supervisory Directors	180.2	172.7	7.5
Total	**8,539.0**	**7,994.3**	**544.7**

Compensation of the Executive Board

The compensation system for KfW's Executive Board is aimed at appropriately compensating members of the Executive Board for their duties and responsibilities. Executive Board contracts are drawn up based on the 1992 version of the policy for hiring executive board members at credit institutions of the Federal Government *(Grundsätze für die Anstellung der Vorstandsmitglieder bei den Kreditinstituten des Bundes).* The Federal Public Corporate Governance Code (*Public Corporate Governance Kodex des Bundes* – "PCGK") is taken into account when drawing up contracts. The individual contracts contain adjustments.

Components of compensation

One Executive Board member who was appointed to the Executive Board prior to June 2009 and who stepped down in 2014 received compensation on a pro rata basis in 2014, paid out in equal monthly sums; that member also received a fixed end-of-year bonus, paid annually upon approval of the financial statements by the Board of Supervisory Directors; the last payment will be made in 2015 on a pro rata basis for 2014. The remaining Executive Board members receive fixed monetary compensation paid in equal monthly sums.

The compensation of the Chief Executive Officer is an exception; based on an agreed set of annual targets, he receives a variable end-of-year bonus in addition to his fixed salary. This will be at least EUR 175,571 for financial year 2014. This minimum bonus payment does not apply if KfW's net income for a financial year is insufficient to ensure allocation to the statutory reserves. The annual targets agreed for financial year 2014 comprise promotional, economic and regulatory targets with a 60% quantitative to 40% qualitative weighting. A cap on the end-of-year bonus has been agreed.

The following table shows total compensation, broken down into fixed and, where applicable, variable components and other forms of compensation, as well as additions to pension provisions for the individual members of the Executive Board.

Annual compensation of the Executive Board and additions to pension provisions in financial years 2014 and 2013[1)]

	Salary[2)]		Variable compensation		Other compensation		Total		Additions to pension provisions	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	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	EUR in thousands
Dr Ulrich Schröder (Chief Executive Officer)	707.3	698.6	269.0	260.0	80.7	81.9	1,057.0	1,040.5	1,454.7	421.7
Dr Günther Bräunig	634.7[4)]	518.8	0.0	0.0	37.1	30.2	671.8	549.0	2,155.2	477.7
Dr Ingrid Hengster[3)]	373.5	0.0	0.0	0.0	26.2	0.0	399.7	0.0	690.6	0.0
Dr Norbert Kloppenburg	634.7[4)]	518.8	0.0	0.0	43.6	42.3	678.3	561.1	2,169.6	479.8
Dr Edeltraud Leibrock	525.3	518.8	0.0	0.0	52.7	51.4	578.0	570.2	810.9	293.2
Bernd Loewen	535.2	508.1	0.0	0.0	35.6	46.0	570.8	554.1	1,189.7	392.0
Dr Axel Nawrath[3)]	237.2[5)]	491.5	0.0	0.0	24.9	100.4	262.1	591.9	4,403.5[6)]	553.8
Total	**3,647.9**	**3,254.6**	**269.0**	**260.0**	**300.8**	**352.2**	**4,217.7**	**3,866.8**	**12,874.2**	**2,618.2**

1) Amounts in the table are subject to rounding differences.
2) The discount rate for pension provisions decreased during the year under review due to the trend in long-term interest rates on the capital market from 3.30% (31 December 2013) to 1.75% (31 December 2014), resulting in greater additions to provisions. This also applies to the pension provisions for Executive Board members.
3) Dr Ingrid Hengster since 1 April 2014; Dr Axel Nawrath until 31 March 2014.
4) Includes an anniversary bonus in accordance with KfW's general company policy.
5) Includes a fixed end-of-year bonus.
6) Includes additions to provisions to cover an early retirement benefit.

Responsibilities

The Executive and Nomination Committee has discussed the Executive Board compensation system including contract components since the committee structure was modified in accordance with the applicable Section 25d of the German Banking Act *(Kreditwesengesetz – "KWG")* and adopts and regularly reviews it. The Executive and Nomination Committee is advised on these matters by the Remuneration Control Committee, which in turn considers the results of certain analyses of the recently established Risk and Credit Committee regarding the incentive effects of the compensation systems. Likewise after consulting with the Remuneration Control Committee on the matter, the Board of Supervisory Directors decides upon the basic structure of the Executive Board's compensation system. The information in the 2013 Corporate Governance Report applied *mutatis mutandis* up to the amendment of the bylaws effective 1 August 2014.

The Executive and Nomination Committee discussed compensation issues on numerous occasions during the reporting year, most recently in its meeting of 11 December 2014.

Fringe benefits

Other compensation largely comprises fringe benefits. Executive Board members are entitled to a company car with a driver for business and private use. Executive Board members reimburse KfW for using a company car with a driver for private purposes in accordance with the applicable tax regulations. They are reimbursed under tax regulations for the cost of maintaining a secondary residence for business reasons.

Executive Board members are insured under a group accident insurance policy. Allowances are provided for health and long-term care insurance. Executive Board members are covered by a directors and officers liability insurance policy, which insures them against the risks of financial loss associated with their actions in their capacity as Executive Board members and by a supplemental legal expenses insurance policy. There currently is no excess. KfW Executive Board members acting in their management capacity are also protected by a special legal expenses group policy for employees covering criminal action.

No compensation is paid to members of the Executive Board for assuming executive body functions at group companies.

As with all other executives, Executive Board members may also opt to participate in the deferred compensation programme – a supplemental company pension scheme financed via tax-free salary conversion. Moreover, they are entitled to anniversary bonuses in accordance with KfW's general company policy.

Moreover, the fringe benefits contain the cost of security systems at Executive Board members' residences; these benefits are not recognised as other compensation but as Non-personnel expenses.

The fringe benefits are subject to taxation as benefits in money's worth for Executive Board members if they cannot be granted on a tax-free basis or if such treatment is contractually agreed.

There were no loans by KfW to any members of the Executive Board in 2014.

No Executive Board member was granted or promised any benefits by a third party during the past financial year with a view to his or her position as a member of the KfW Executive Board.

Pension benefits and termination benefits

In accordance with Article 1 (3) of the KfW Bylaws, the appointment of an Executive Board member should not generally extend beyond reaching the legal age of retirement. The Chief Executive Officer is exempt from this provision; he will be slightly above the statutory retirement age at the end of his current period of office on 31 December 2017. Upon reaching the age of 65 or statutory retirement age and the expiry of their Executive Board contract, Executive Board members are entitled to claim pension payments. Executive Board members whose service contracts were signed before 2013 may retire early at their own request upon turning 63. Pension benefits for Executive Board members as well as their surviving dependants are based on the 1992 version of the Federal Government's policy for hiring executive board members at credit institutions. The Federal Public Corporate Governance Code was taken into account when drawing up the Executive Board contracts.

Executive Board member contracts include a severance pay cap in accordance with the recommendations of the Federal Public Corporate Governance Code. In other

words, payments to these Executive Board members due to early termination of the Executive Board function without good cause in accordance with Section 626 of the German Civil Code *(Bürgerliches Gesetzbuch – "BGB")* should not exceed the equivalent of two years' salary or compensation including fringe benefits for the remainder of the contract, whichever is lower.
Executive Board contracts which were concluded before 2010 generally provided for early retirement benefits after two terms on the Board, regardless of age and even in the case that KfW did not extend the Executive Board contract. For Executive Board members reappointed to the Executive Board since 2010, any early retirement benefit entitlements were grandfathered by converting them into claims with a time limit. Moreover, Executive Board members are entitled to pension benefits if their employment relationship ends due to permanent disability.

The full pension benefit totals 70% of the pensionable remuneration. The pensionable remuneration is 70% of the last remuneration. The pension benefit – with the exception of the Chief Executive Officer – normally amounts to 70% of the full entitlement upon initial appointment and increases by 3 percentage points for every year of service completed, and in one case by 2.5 percentage points.
The Executive Board contracts contain additional individual provisions, in particular concerning vesting of pension benefits.

Pension payments to former Executive Board members or their surviving dependants were as follows in 2014 and 2013:

Pension payments to former Executive Board members or their surviving dependants

	Headcount 2014	EUR in thousands 2014	Headcount 2013	EUR in thousands 2013
Former members of the Executive Board	19	3,260.6	18	3,164.1
Surviving dependants	11	880.5	11	790.7
Total	**30**	**4,141.1**	**29**	**3,954.8**

Pension payments were initiated for one person in 2014.

Provisions in the amount of EUR 69,100.9 thousand had been set up at the end of the financial year 2014 for pension obligations to former members of the Executive Board and their surviving dependants (previous year: EUR 55,384.2 thousand).

No loans were granted to former Executive Board members or their surviving dependants in financial year 2014.

Compensation of members of the Board of Supervisory Directors

The amount of compensation for members of the Board of Supervisory Directors is determined by the supervisory authority in accordance with Article 7 (10) of the KfW Bylaws. With the last revision in May 2010, compensation for members of the Federal Government who are members of the Board of Supervisory Directors pursuant to Article 7 (1) No. 1 and No. 2 of the KfW Law was set to EUR 0.

For the reporting year, compensation for other members of the Board of Supervisory Directors pursuant to Article 7 (1) Nos. 3-6 of the KfW Law amounted to EUR 5.1 thousand p. a.; compensation for sitting on a committee of the Board of Supervisory Directors was a standard amount of EUR 0.6 thousand p. a. for each member. Committee chairs received no special compensation.

Compensation is provided on a pro rata basis for joining the Board of Supervisory Directors during the year.

Upon request a daily allowance (EUR 0.2 thousand per meeting day) is paid and travelling expenses (including VAT) are reimbursed.

The following table provides details on the compensation paid to the Board of Supervisory Directors in financial year 2014: all amounts are shown net in thousands of euros. Travelling expenses are reimbursed upon submission of receipts and are not taken into account in the table.

Compensation of members of the Board of Supervisory Directors for the financial year 2014

No.	Name	Dates of membership	Board of Supervisory Directors membership	Committee membership	Daily allowance	Total
		2014	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1	Sigmar Gabriel	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
2	Dr Wolfgang Schäuble	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
3	Norbert Barthle	31 Jan.–31 Dec.	5.1	0.8	0.6	6.5
4	Jan Bettink	1 Jan.–31 Dec.	5.1	1.0	0.0	6.1
5	Anton F. Börner	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
6	Hans-Dieter Brenner	18 June–31 Dec.	3.0	0.3	0.6	3.9
7	Frank Bsirske	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
8	Jens Bullerjahn[2)]	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
9	Alexander Dobrindt	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
10	Georg Fahrenschon	1 Jan.–31 Dec.	5.1	2.0	0.4	7.5
11	Robert Feiger	8 Jan.–31 Dec.	5.1	0.3	0.8	6.2
12	Klaus-Peter Flosbach	1 Feb.–31 Dec.	4.7	0.5	0.8	6.0
13	Dr Hans-Peter Friedrich	1 Jan.–17 Feb.	0.0	0.0	0.0	0.0
14	Hubertus Heil	1 Jan.–31 Dec.	5.1	1.5	0.6	7.2
15	Dr Barbara Hendricks	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
16	Prof. Dr Hans-Günter Henneke	1 Jan.–31 Dec.	5.1	0.0	0.4	5.5
17	Reiner Hoffmann	18 June–31 Dec.	3.0	0.5	0.0	3.5
18	Gerhard Hofmann	1 Jan.–31 Dec.	5.1	1.0	0.0	6.1
19	Bartholomäus Kalb	31 Jan.–31 Dec.	5.1	0.5	0.8	6.4
20	Dr Markus Kerber[3)]	1 Jan.–31 Dec.	3.0	0.6	0.0	3.6
21	Stefan Körzell	1 July–31 Dec.	2.6	0.5	0.4	3.5
22	Dr h.c. Jürgen Koppelin	1 Jan.–31 Dec.	5.1	0.5	0.6	6.2
23	Dr Gesine Lötzsch	1 Jan.–31 Dec.	5.1	1.1	0.6	6.8
24	Claus Matecki	1 Jan.–30 June	2.6	0.0	0.2	2.8
25	Dr Michael Meister[4)]	1 Jan.–31 Jan.	0.0	0.0	0.0	0.0
26	Dr Gerd Müller	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
27	Dr Ulrich Nussbaum[2)]	1 Jan.–10 Dec.	5.1	0.6	0.0	5.7
28	Joachim Rukwied	1 Jan.–31 Dec.	5.1	0.5	0.6	6.2
29	Dr Nils Schmid[2)]	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
30	Christian Schmidt	17 Feb.–31 Dec.	0.0	0.0	0.0	0.0
31	Andreas Schmitz	1 Jan.–31 Dec.	5.1	2.0	1.0	8.1
32	Carsten Schneider	31 Jan.–31 Dec.	5.1	1.0	0.8	6.9
33	Peter-Jürgen Schneider[2)]	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
34	Holger Schwannecke	1 Jan.–31 Dec.	5.1	1.5	0.6	7.2
35	Erwin Sellering[2)]	1 Jan.–31 Dec.	5.1	0.8	0.0	5.9
36	Dr Markus Söder[2)]	1 Jan.–31 Dec.	5.1	0.8	0.0	5.9
37	Michael Sommer	1 Jan.–15 May	2.1	0.3	0.0	2.4
38	Dr Frank-Walter Steinmeier	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
39	Dr Norbert Walter-Borjans[2)]	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
40	Dr Martin Wansleben	1 Jan.–31 Dec.	5.1	0.5	0.0	5.6
41	Dr Kai H. Warnecke	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
Total			**148.5**	**21.3**	**10.4**	**180.2**

1) The amounts had not yet been paid out as of the reporting date of 31 December 2014.
2) Amount governed by state law.
3) This seat was in abeyance until 2 June 2014 inclusive.
4) No compensation drawn since 16 December 2013.

Compensation of members of the Board of Supervisory Directors for the financial year 2013

No.	Name	Dates of membership	Board of Supervisory Directors membership	Committee membership	Daily allowance	Total
		2013	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1	Dr Wolfgang Schäuble	1 Jan.–31 Dec.	0.0	0.0	0.0	0.0
2	Dr Philipp Rösler	1 Jan.–17 Dec.	0.0	0.0	0.0	0.0
3	Sigmar Gabriel	17 Dec.–31 Dec.	0.0	0.0	0.0	0.0
4	Ilse Aigner	1 Jan.–30 Sept.	0.0	0.0	0.0	0.0
5	Peter Altmaier	1 Jan.–17 Dec.	0.0	0.0	0.0	0.0
6	Norbert Barthle	1 Jan.–31 Dec.	5.1	1.2	0.4	6.7
7	Jan Bettink	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
8	Anton F. Börner	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
9	Volker Bouffier[1)]	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
10	Frank Bsirske	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
11	Jens Bullerjahn[1)]	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
12	Alexander Dobrindt	17 Dec.–31 Dec.	0.0	0.0	0.0	0.0
13	Ingeborg Esser	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
14	Georg Fahrenschon	1 Jan.–31 Dec.	5.1	1.8	0.0	6.9
15	Dr Hans-Peter Friedrich	30 Sept.–31 Dec.	0.0	0.0	0.0	0.0
16	Hubertus Heil	1 Jan.–31 Dec.	5.1	1.2	0.2	6.5
17	Dr Barbara Hendricks	17 Dec.–31 Dec.	0.0	0.0	0.0	0.0
18	Prof. Dr Hans-Günter Henneke	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
19	Gerhard Hofmann	1 Jan.–31 Dec.	5.1	1.2	0.0	6.3
20	Bartholomäus Kalb	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
21	Dr Markus Kerber[2)]	1 Jan.–31 Dec.	1.7	0.2	0.0	1.9
22	Dr h.c. Jürgen Koppelin	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
23	Dr Gesine Lötzsch	1 Jan.–31 Dec.	5.1	0.6	0.6	6.3
24	Claus Matecki	1 Jan.–31 Dec.	5.1	0.0	0.6	5.7
25	Dr Michael Meister[3)]	1 Jan.–31 Dec.	4.9	0.6	0.6	6.1
26	Franz-Josef Möllenberg	1 Jan.–31 Dec.	5.1	1.2	0.4	6.7
27	Dr Gerd Müller	17 Dec.–31 Dec.	0.0	0.0	0.0	0.0
28	Dirk Niebel	1 Jan.–17 Dec.	0.0	0.0	0.0	0.0
29	Dr Ulrich Nussbaum[1)]	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
30	Dr Peter Ramsauer	1 Jan.–17 Dec.	0.0	0.0	0.0	0.0
31	Joachim Rukwied	1 Jan.–31 Dec.	5.1	0.6	0.8	6.5
32	Dr Nils Schmid[1)]	1 Jan.–31 Dec.	5.1	0.6	0.4	6.1
33	Andreas Schmitz	1 Jan.–31 Dec.	5.1	1.8	0.4	7.3
34	Carsten Schneider	1 Jan.–31 Dec.	5.1	1.2	0.8	7.1
35	Holger Schwannecke	1 Jan.–31 Dec.	5.1	1.2	0.6	6.9
36	Erwin Sellering[1)]	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
37	Dr Markus Söder[1)]	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
38	Michael Sommer	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
39	Dr Frank-Walter Steinmeier	17 Dec.–31 Dec.	0.0	0.0	0.0	0.0
40	Dr Norbert Walter-Borjans[1)]	1 Jan.–31 Dec.	5.1	0.6	0.0	5.7
41	Dr Martin Wansleben	1 Jan.–31 Dec.	5.1	0.0	0.0	5.1
42	Dr Guido Westerwelle	1 Jan.–17 Dec.	0.0	0.0	0.0	0.0
Total			**144.3**	**20.6**	**7.8**	**172.7**

1) Amount governed by state law.
2) This seat has been in abeyance since 19 April 2013.
3) No compensation drawn since 16 December 2013.

There are no pension obligations for members of the Board of Supervisory Directors.

Members of the Board of Supervisory Directors received no compensation in the reporting year for personal services provided.

No direct loans were granted to members of the Board of Supervisory Directors in the reporting year.

Members of the Board of Supervisory Directors are also covered by a directors and officers liability insurance policy, which insures them against the risks of financial loss associated with their actions in their capacity as Supervisory Directors and by a supplemental legal expenses insurance policy. There is currently no excess here either. KfW's Supervisory Directors acting in that capacity are also protected by a special legal expenses group policy for employees covering criminal action and by a group accident insurance policy.

(82) Related party disclosures

In accordance with IAS 24, KfW Group's related entities include the consolidated subsidiaries, the non-consolidated subsidiaries, joint ventures, associates and the interests held by the Federal Government.

Natural persons considered related parties in accordance with IAS 24 include the members of the Executive Board and of the Board of Supervisory Directors, the Directors of KfW, the managing directors of all subsidiaries included in the consolidated financial statements, the members of the supervisory boards of certain consolidated subsidiaries and their close family members.

KfW is a public law institution in which the Federal Government holds an 80% stake and the Federal States hold a 20% stake. Any transactions with the Federal Government and the Federal States in the financial year 2014 are covered by the rules and regulations set forth in the KfW Law. This also includes operations in which the Federal Republic of Germany has a state interest and for which the Federal Government has mandated KfW (mandated transactions in accordance with Article 2 (4) of the KfW Law). In addition to mandated transactions, the Federal Government also has agency agreements with KfW, which primarily govern the individual promotional programmes.

The business relationships between KfW and natural persons considered related parties are primarily determined by the KfW Bylaws and by applying the principles of the Federal Public Corporate Governance Code. The conditions and prices reflect market conditions or are concluded in accordance with KfW's general conditions for its loan programmes open to the general public.

(83) Auditor's fees

	2014 EUR in thousands	2013 EUR in thousands	Change EUR in thousands
Audit	3,208	2,692	516
Other attestation services	1,802	2,011	-209
Tax advisory services	349	346	3
Other services	2,167	1,266	901
Total	**7,525**	**6,314**	**1,210**

The Other attestation services include, in particular, auditing support for the major projects related to KfW's modernisation.

(84) Disclosures on unconsolidated structured entities

KfW Group's unconsolidated structured entities within the meaning of IFRS 12 concern the following business sectors:

Structured entities in the business sector Capital markets

KfW makes investments in ABS and ABCP transactions to promote the financing of German SMEs and as part of its liquidity management. The business sector Capital markets also manages an existing portfolio in which no further acquisitions are made. This portfolio currently consists of securities issued since 2001. As of 31 December 2014, the carrying amount of the positions held totalled EUR 3.4 billion. As a general rule, KfW's investments amount to a maximum of 10% of the volume of an individual transaction. In cases of investments for promotional purposes, the proportion of the KfW investment may be higher, but generally no more than 50% of the transaction volume.

Structured entities in the business sector Promotion of developing and transition countries

In the context of financial cooperation with developing and emerging market countries, KfW invests on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) in selected ABS transactions to promote development of the local capital market. KfW currently holds securities issued since 2007. As of 31 December 2014, the carrying amount of the positions held totalled EUR 38 million. KfW's investments generally amount to a maximum of 10% of the volume of a transaction.

As a finance and advisory institution, DEG provides support within its development mandate and in line with its business activity guidelines. DEG's mandate is to promote the development of the private sector of a) developing countries, b) central and eastern European countries and New Independent States (NIS), and c) other countries approved by its shareholder KfW in agreement with the German Federal Government. In certain isolated cases this is undertaken via investments in unconsolidated structured entities in accordance with IFRS 12 in form of equity investments and loans. In accordance with the applied risk principles, the risk of loss is limited to the volume invested or committed.

Structured entities in the business sector Export and project finance

Tailored leasing/financing concepts are structured via property leasing companies, primarily in the “aviation and rail” and “maritime industry” transport sectors. A separate entity is basically created for each transaction, with KfW Group participating as the lender. In the case of some of these business partners, the sponsoring banks act as managers of trust companies; but in the majority of cases, these business partners are set up as separate legal entities. KfW Group provides loans to these companies, generally together with other credit institutions.

KfW also has credit relationships with some structured entities, which act as market participants in the commodities financing business, where KfW supports these customers with export pre-financing structures.
As of 31 December 2014, the carrying amount of the positions held totalled EUR 4.0 billion.

The following table shows the carrying amounts of KfW Group’s assets relating to unconsolidated structured entities and the maximum possible loss that could result from these exposures as of 31 December 2014:

	Loans and advances to customers	Securities and investments	Other assets	Contingent liabilities; irrevocable loan commitments
	2014	**2014**	**2014**	**2014**
	EUR in millions	**EUR in millions**	**EUR in millions**	**EUR in millions**
Carrying amount	4,108	3,461	77	399
Risk and other provisions	39	0	1	1
Max. risk of loss	**4,069**	**3,460**	**76**	**398**

The maximum risk of loss is equal to the principal amount for credit lines, (financial) guarantees and other liquidity facilities minus the provisions for lending business recognised in the statement of financial position. The maximum risk of loss relating to KfW Group’s investments is their carrying amount (net). The maximum risk of loss does not include effects from KfW Group’s hedging transactions used to reduce the maximum risk of loss.

No support is provided to structured entities in KfW Group beyond the respective financing.

In exceptional cases, KfW Group acts as the sponsor for structured entities in which it holds shares purely on a trust basis on behalf of the Federal Government. The risk of these structured entities lies exclusively with the Federal Government. In such cases, KfW Group is considered as the sponsor of the structured entities because the entities were initiated and/or structured by KfW Group on behalf of the Federal Government.

(85) Disclosures on shareholdings

Subsidiaries included in the consolidated financial statements

Name/registered office	Capital share	Equity (IFRS) as of 31 Dec. 2014
	%	EUR in millions
KfW IPEX-Bank GmbH, Frankfurt am Main (www.kfw-ipex-bank.de)	100.0	3,549
KfW IPEX-Beteiligungsholding GmbH, Frankfurt am Main	100.0	2,373
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (www.deginvest.de)	100.0	2,410
KfW Beteiligungsholding GmbH, Bonn	100.0	396
tbg Technologie-Beteiligungs-Gesellschaft mbH, Bonn	100.0	185

Associates included in the consolidated financial statements using the equity method

Name/registered office	Capital share	Equity as of 30 Sept. 2014
	%	EUR in millions
Microfinance Enhancement Facility S.A., Luxembourg	24.1	351
Green for Growth Fund, Southeast Europe S.A., Luxembourg	18.9	242
AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co KG, Munich	47.5	73

Microfinance Enhancement Facility S.A. (MEF) has been accounted for using the equity method since 2009. MEF, a KfW investment in a refinancing facility for microfinance institutions is part of the business sector Promotion of developing and transition countries. Details of the business sectors as well as a summary of financial information can be found on the company's website (http://www.mef-fund.com/).

Green for Growth Fund, Southeast Europe S.A. (GGF) has been included in the consolidated financial statements using the equity method since 2010. GGF is a fund to promote SME and private household investment in energy efficiency and renewable energy in the Western Balkans and in Turkey (also business sector Promotion of developing and transition countries). Details of the business sectors as well as a summary of financial information can be found on the company's website (http://www.ggf.lu).

Mittelstandsbank initiated the Eigenkapitalfonds für deutschen Mittelstand (German SME Equity Fund) together with Commerzbank in July 2010, each providing funds of almost EUR 100 million. It is accounted for using the equity method. The fund focuses on small and medium-sized (family) companies with a maximum annual revenue of EUR 500 million. The fund acquires minority interests and provides the company with real equity particularly for the purpose of financing growth.

Entities not included in the consolidated financial statements

Six subsidiaries, seven joint ventures, 13 associated companies, and 19 special purpose vehicles (including structured entities) of minor significance to the presentation of the net assets, financial position and results of operations of KfW Group have not been consolidated; instead they are shown in the statement of financial position under Securities and investments or Loans and advances. These companies account for approximately 0.1 % of KfW Group's total assets.

List of KfW Group shareholdings as of 31 December 2014

No.	Name	Place	Capital share in %	CC 1)	Exchange rate EUR 1.00 = CU 2) as of 31 Dec. 2014	Equity in TCU 2), 3)	Net income in TCU 2), 3)
KfW shareholdings							
A. Fully consolidated subsidiaries included in the consolidated financial statements							
1	DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	Cologne	100.0	EUR	1	2,071,040	168,854
2	KfW Beteiligungsholding GmbH	Bonn	100.0	EUR	1	395,593	19,079
3	KfW IPEX-Beteiligungsholding GmbH	Frankfurt am Main	100.0	EUR	1	1,585,970	7,607
B. Subsidiaries not included in the consolidated financial statements							
4	Interkonnektor GmbH	Frankfurt am Main	100.0	EUR	1	0	–41
C. Joint ventures not included in the consolidated financial statements							
5	Berliner Energieagentur GmbH	Berlin	25.0	EUR	1	4,685	488
6	Deutsche Energie-Agentur GmbH (dena)	Berlin	26.0	EUR	1	5,765	27
D. Other shareholdings (only capital shares totalling at least 20%)							
7	AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG	Munich	47.5	EUR	1	47,548	–190
8	eCapital Technologies Fonds II GmbH & Co. KG	Münster	24.8	EUR	1	21,545	11,902
9	Europäischer Fonds für Südosteuropa S.A.[6)]	Bertrange, Luxembourg	21.8	EUR	1	696,403	-6,464
10	Galaxy S.à.r.l.	Luxembourg, Luxembourg	20.0	EUR	1	7,810	–10
11	Microfinance Enhancement Facility S.A.[6)]	Luxembourg, Luxembourg	24.1	USD	1.2141	78,950	18,901
12	Mittelstandsfonds Hamburg MHH GmbH & Co. KG	Hamburg	24.9	EUR	1	8,912	276
13	Post 2012 Carbon Credit Fund CV	Amsterdam, Netherlands	20.0	EUR	1	0	28,483

List of KfW Group shareholdings as of 31 December 2014

No.	Name	Place	Capital share in %	CC[1]	Exchange rate EUR 1.00 = CU[2] as of 31 Dec. 2014	Equity in TCU[2), 3)]	Net income in TCU[2), 3)]
Shareholdings of KfW IPEX-Bank GmbH							
A. Subsidiaries not included in the consolidated financial statements							
1	Sperber Rail Holdings Inc.	Wilmington, USA	100.0	USD	1.2141	1,692	–240
2	Bussard Air Leasing Ltd.[5]	Dublin, Ireland	100.0	EUR	1	–	–
B. Joint ventures not included in the consolidated financial statements							
3	Canas Leasing Ltd.	Dublin, Ireland	50.0	USD	1.2141	0	0
4	MDCapital Beteiligungsgesellschaft mbH i. L.	Düsseldorf	50.0	EUR	1	1,236	12
C. Other shareholdings (only capital shares totalling at least 20%)							
5	8F Leasing S. A.	Contern, Luxembourg	22.2	USD	1.2141	11,496	146
Shareholdings of tbg Technologie-Beteiligungs-Gesellschaft mbH							
A. Subsidiaries not included in the consolidated financial statements							
1	Strategic European Technologies N. V.	’s-Hertogenbosch, Netherlands	52.0	EUR	1	4,703	–331
B. Other shareholdings (only capital shares totalling at least 20%)							
2	Aurelia Technologie-Fonds I GmbH & Co. Beteiligungen KG	Frankfurt am Main	24.6	EUR	1	5,043	600
3	BioM VC GmbH & Co. Fonds KG	Munich	22.3	EUR	1	2,153	–3
4	Bremer Unternehmensbeteiligungs-gesellschaft mbH	Bremen	20.0	EUR	1	8,618	248
5	Chromatec GmbH	Greifswald	24.8	EUR	1	32	0
6	CV Cryptovision GmbH	Gelsenkirchen	23.4	EUR	1	1,698	305
7	eCapital New Technologies Fonds AG & Co. Unternehmensbeteiligungs-gesellschaft KG	Münster	24.8	EUR	1	2,924	–13
8	Fama Fassaden GmbH	Zottelstedt	24.7	EUR	1	125	–62
9	FIB Fonds für Innovation und Beschäftigung Rheinland-Pfalz UBG mbH	Mainz	24.0	EUR	1	2,094	–207
10	i42 Informationsmanagement GmbH	Mannheim	20.9	EUR	1	81	20
11	infoRoad GmbH	Heroldsberg	22.5	EUR	1	139	19
12	KTB Technologie Beteiligungsgesellschaft mbH & Co. KG	Leverkusen	25.0	EUR	1	3,154	–411
13	Medizin Forum AG	Bad Nauheim	24.9	EUR	1	24	–8
14	Premium Bodywear AG	Chemnitz	24.0	EUR	1	395	84
15	Prudsys AG	Chemnitz	24.9	EUR	1	1,380	156
16	Saarländische Wagnisfinanzierungs-gesellschaft mbH	Saarbrücken	20.4	EUR	1	6,695	–448

List of KfW Group shareholdings as of 31 December 2014

No.	Name	Place	Capital share in %	CC[1)]	Exchange rate EUR 1.00 = CU[2)] as of 31 Dec. 2014	Equity in TCU[2), 3)]	Net income in TCU[2), 3)]
Shareholdings of tbg Technologie-Beteiligungs-Gesellschaft mbH							
B. Other shareholdings (only capital shares totalling at least 20%)							
17	Sachsen LB V.C. GmbH & Co. KG	Leipzig	24.8	EUR	1	1,368	–260
18	Sepiatec GmbH	Berlin	21.9	EUR	1	269	410
19	SHS Gesellschaft für Beteiligungen mbH & Co. Mittelstand KG	Tübingen	24.8	EUR	1	4,511	1
20	Technologie Beteiligungsfonds Bayern GmbH & Co. KG	Munich	25.0	EUR	1	1,785	309
21	Technologie Beteiligungsfonds Bayern Verwaltungs GmbH	Landshut	25.0	EUR	1	38	2
22	Tübinger Seed Fonds KG	Tübingen	21.9	EUR	1	632	–2
23	TVM Medical Ventures GmbH & Co. KG	Munich	23.3	EUR	1	3,111	277
24	Venture Capital Thüringen GmbH & Co. KG	Erfurt	24.9	EUR	1	4,061	–157
25	Wikon Kommunikationstechnik GmbH	Kaiserslautern	20.0	EUR	1	0	170
Shareholdings of KfW IPEX-Beteiligungsholding GmbH							
A. Fully consolidated subsidiaries included in the consolidated financial statements							
1	KfW IPEX-Bank GmbH	Frankfurt am Main	100.0	EUR	1	3,330,901	139,497
Shareholdings of KfW Beteiligungsholding GmbH							
A. Fully consolidated subsidiaries included in the consolidated financial statements							
1	tbg Technologie-Beteiligungsgesellschaft mbH	Bonn	100.0	EUR	1	178,600	18,348
B. Subsidiaries not included in the consolidated financial statements							
2	ASTRA Grundstücksgesellschaft mbH i. L.	Frankfurt am Main	100.0	EUR	1	59	0
3	Finanzierungs- und Beratungsgesellschaft mbH	Berlin	100.0	EUR	1	13,696	28
Shareholdings of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH							
A. Joint ventures not included in the consolidated financial statements							
1	PCC-DEG Renewables GmbH[7)]	Duisburg	40.0	EUR	1	18,937	612
B. Other shareholdings (only capital shares totalling at least 20%)							
2	Ace Power Pvt. Ltd.	Colombo, Sri Lanka	26.0	LKR	159.2835	3,045,462	842,363
3	Acon Latin American Opportunities Fund A, L.P.	Washington D.C., USA	40.0	USD	1.2141	82,729	16,271
4	Acon Latin American Opportunities Fund IV-A, L.P.	Washington D.C., USA	39.9	USD	1.2141	822	-394
5	Adobe Social Mezzanine Fund, L.P.	Mexiko D.F., Mexiko	24.8	USD	1.2141	1,822	–1,012
6	ADP Enterprises W.L.L.	Manama, Bahrain	23.5	EUR	1	128,400	85,963
7	AQ Investments LLC	Miami, USA	28.1	USD	1.2141	19,973	490
8	ARKENUX S.A.	Montevideo, Uruguay	38.0	UYU	29.149	892,458	–2,053

List of KfW Group shareholdings as of 31 December 2014

No.	Name	Place	Capital share in %	CC[1]	Exchange rate EUR 1.00 = CU[2] as of 31 Dec. 2014	Equity in TCU[2), 3)]	Net income in TCU[2), 3)]
Shareholdings of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH							
B. Other shareholdings (only capital shares totalling at least 20%)							
9	Asia Insurance 1950 Company Ltd.	Bangkok, Thailand	24.6	THB	39.8937	250,617	40,714
10	Banque Nationale de Développement Agricole	Bamako, Mali	21.4	XOF	655.957	27,574,677	5,562,200
11	Banyan Tree Growth Capital LLC	Port Louis, Mauritius	27.0	USD	1.2141	85,919	–11,806
12	Benetex Industries Ltd.	Dhaka, Bangladesh	28.3	BDT	94.56845	–	–
13	Berkeley Energy Wind Mauritius Ltd.	Ebene, Mauritius	26.5	EUR	1	72,852	–6,862
14	Bucharagips AG	Bukhara, Uzbekistan	25.0	RUB	72.337	–	–
15	Center-Invest Bank	Rostov-on-Don, Russ. Federation	22.5	RUB	72.337	8,752,407	1,409,883
16	CGFT Capital Pooling GmbH & Co. KG[5]	Berlin	39.9	USD	1.2141	–	–
17	CoreCo Central America Fund I L.P.	Miami, USA	20.0	USD	1.2141	10,305	–728
18	Desarrollos Eólicos Mexicanos de oaxaca 2 S.A.P.I. de C.V.	Mexico D.F., Mexico	27.8	USD	1.2141	–24,823	–17,731
19	Emerging Europe Leasing and Finance (EELF) B.V.	Amsterdam, Netherlands	25.0	EUR	1	18,637	1,518
20	EMF NEIF I (A) L.P.	Southampton, UK	28.3	USD	1.2141	1,518	–613
21	EMX Capital Partners L.P.	Mexico D.F., Mexico	20.1	USD	1.2141	8,195	1,568
22	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet	São Paulo, Brazil	39.7	BRL	3.22635	29,525	193
23	Global Credit Rating Company Ltd.	Sandton, Johannesburg, South Africa	25.1	USD	1.2141	871	2,599
24	Grassland Finance Ltd.	Hong Kong, Hong Kong	26.0	HKD	9.417	–1,273	–3,073
25	Grassroots Business Investors Fund L.P. I	Washington D.C., USA	30.9	USD	1.2141	18,913	–923
26	H&Q Philippine Holdings, Inc.[4]	Manila, Philippines	50.0	PHP	54.461	–	–
27	HaPe International Ningbo Ltd.	Ningbo, China	37.5	CNY	7.5358	122,093	36,180
28	Jade Cargo International Co. Ltd.[4]	Shenzhen, China	24.0	CNY	7.5358	–	–
29	Kendall Court Mezzanine (Asia) Bristol Merit Fund L.P.	Cayman Islands	24.4	USD	1.2141	56,831	6,666
30	Knauf Gips Buchara OOO	Bukhara, Uzbekistan	24.9	UZS	2,954.60	–	–
31	MGM Sustainable Energy Fund L.P.	Toronto, Ontario, Canada	20.0	USD	1.2141	365	–557

List of KfW Group shareholdings as of 31 December 2014

No.	Name	Place	Capital share in %	CC[1]	Exchange rate EUR 1.00 = CU[2] as of 31 Dec. 2014	Equity in TCU[2), 3)]	Net income in TCU[2), 3)]
Shareholdings of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH							
B. Other shareholdings (only capital shares totalling at least 20%)							
32	Microcrediti Financial Institution Kontakt A. D.	Podgorica, Montenegro	26.3	EUR	1	1,848	9
33	Nature Elements Asia RE&C Fund L. P.	Hong Kong, Hong Kong	30.3	USD	1.2141	3,041	-1,343
34	OJSC Tourism Promotion Services	Dushanbe, Tajikistan	21.0	TJS	6.26281	25,702	-18,313
35	Orilus Investment Holdings Pte. Ltd	Singapore, Singapore	33.0	USD	1.2141	40,621	1,070
36	Russia Partners Technology Fund L. P.	New York, USA	21.6	USD	1.2141	53,507	18,572
37	SAE Towers, L. P.	Washington D. C., USA	26.9	USD	1.2141	–	–
38	Stratus Capital Partners[4]	São Paulo, Brazil	24.0	BRL	3.22635	–	–
39	The Kibofund II LLC[5]	Ebene, Mauritius	25.0	USD	1.2141	–	–
40	The SEAF Central and Eastern Europe Growth Fund	Washington D. C., USA	23.9	USD	1.2141	6,921	262
41	Tirana Airport Partners SHPK	Rinas, Albania	31.7	EUR	1	25,536	6,596
42	Tolstoi Investimentos S. A.	São Paulo, Brazil	31.1	BRL	3.22635	55,279	17,555
43	TOO Isi Gips Inder	Inderborsky, Kazakhstan	40.0	KZT	221.8	1,921,152	211,834
44	TOO Knauf Gips Kaptschagaij GmbH	Kapchagay, Kazakhstan	40.0	KZT	221.8	12,807	3,638
45	Tourism Promotion Services Ltd.	Kigali, Rwanda	26.7	RWF	836.48	10,853,896	415,419
46	Windprojektentwicklung Thailand	Bangkok, Thailand	33.3	THB	39.8937	10,563	-64
47	Worldwide Group Inc. Morning Star	Charlestown, Saint Kitts and Nevis	32.3	USD	1.2141	20,435	1,412
48	WPD Energy Vietnam Company Ltd.	Hanoi, Vietnam	30.0	VND	25,965.49	-4,326,202	-2,219,477
49	Zhejiang Wanfeng MotorcycleWheel Co. Ltd.	Xinchang, China	25.0	CNY	7.5358	868,429	189,927

[1] ISO currency code.
[2] CU – Currency units in local currency; TCU = Thousand Currency Units in local currency.
[3] Financial statements prepared in accordance with local accounting standards.
[4] The company is in liquidation.
[5] The company is in the start-up phase, no financial statements have been prepared yet.
[6] Last available capital ratio as of 30 September 2014.
[7] At fair value.

The data is based on the most recent financial statements available from the company (where accessible).

Attestation

Auditor's Report

We have audited the consolidated financial statements prepared by KfW, Frankfurt am Main, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [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 consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group 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 consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB 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 the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 3 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Mock	Müller
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Exhibit (f)

CONSENT OF INDEPENDENT AUDITORS

To the Executive Board of KfW:

We consent to the incorporation by reference in the registration statement (No. 333-192196) of KfW under Schedule B of our report dated March 3, 2015, with respect to the consolidated financial statements of KfW as of and for the year ended December 31, 2014, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, and the notes to the consolidated financial statements, and the group management report for the business year from January 1, 2014 to December 31, 2014, which report appears in Exhibit (e) of KfW's Annual Report on Form 18-K for the year ended December 31, 2014. The group management report to which our report dated March 3, 2015 refers is not presented in full in such exhibit, as it excludes the sustainability report and the declaration of compliance with the German Federal Public Governance Code.

/s/ KPMG AG Wirtschaftsprüfungsgesellschaft
Frankfurt
May 18, 2015

Exhibit (g)

CONSENT OF THE FEDERAL REPUBLIC OF GERMANY

On behalf of the Federal Republic of Germany, I hereby consent to the making of the statements with respect to the Federal Republic of Germany included in the Annual Report on Form 18-K of KfW for the year ended December 31, 2014 and to the incorporation by reference of such information in the Registration Statement under Schedule B of KfW filed with the Securities and Exchange Commission of the United States of America.

May 18, 2015

By: /s/ CHRISTOF HARZER
Name: Christof Harzer
Title: *Ministerialrat* (Head of Division)