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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, 2017

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
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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, 2017 was EUR 157.1 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, 2017)," p. 38 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, 2017)," p. 38 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.

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, 2017 was EUR 3.7 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, 2017 was:

Currency	Principal amount outstanding in currency	Equivalent in euro with conversion rate as of December 31, 2017
AUD	3,050,500,000.00	1,987,814,414.20
GBP	113,000,000.00	127,362,690.62
JPY	31,124,000,000.00	230,531,071.77
NZD	50,000,000.00	29,673,590.50
USD	45,554,140,000.00	37,983,940,631.90
Total		40,359,322,398.99

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. 12 to 14, 52 to 53, 62 to 82 and 83 to 92 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 2017.

(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 2017.

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

1. A statement as of December 31, 2017 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, 2017 was EUR 1,075.31 billion (Source: Bundesministerium der Finanzen, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland zum 30. Juni 2017 und 31. Dezember 2017, Bundesanzeiger of February 02, 2018). 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.

2. 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-45 of Exhibit (d), which are hereby incorporated by reference herein.

3. (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.

initial maturity of less than one year, outstanding as of December 31, 2017 was EUR 11.00 billion (Source: Bundesministerium der Finanzen, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland zum 30. Juni 2017 und 31. Dezember 2017, Bundesanzeiger of February 02, 2018).

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

None.

5. 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.

6. (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 2017.

(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 2017.

7. 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-27 of Exhibit (d), which is hereby incorporated by reference herein.

8. 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-21 et seq. of Exhibit (d), which are hereby incorporated by reference herein.

Exhibit (d) – Description of KfW and the Federal Republic of Germany, dated May 11, 2018.

Exhibit (e) – KfW Financial Information 2017.

Exhibit (f) – Consent of Ernst & Young GmbH 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.

Title: Chief Executive Officer

By: /s/ BERND LOEWEN

Name: Bernd Loewen

Title: Member of the Executive Board

(g) Consent of the Federal Republic of Germany.

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 9, 2018, the euro foreign exchange reference rate as published by the European Central Bank was EUR 1.00 = U.S. dollar 1.1879 (EUR 0.8418 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
2013	1.3779	1.3303	1.3816	1.2774
2014	1.2101	1.3210	1.3927	1.2101
2015	1.0859	1.1032	1.2015	1.0525
2016	1.0552	1.1072	1.1516	1.0375
2017	1.2022	1.1396	1.2041	1.0416
Quarter ended March 31, 2018	1.2320	1.2289	1.2488	1.1922

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

January 2016	1.2488	1.1922
February 2016	1.2482	1.2211
March 2016	1.2440	1.2216
April 2016	1.2384	1.2074
May 2018 (through May 4, 2018)	1.2000	1.1946

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).

selected unaudited interim financial information prepared by KfW on the basis of the recognition and measurement principles of 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, 2018.

With effect from January 1, 2018, KfW adopted IFRS 9 in line with mandatory requirements for annual periods beginning on or after January 1, 2018. IFRS 9 stipulates new valuation rules with respect to financial instruments. Comparative information is not required to be restated. Due to the retrospective application of these new valuation rules under IFRS 9, KfW's equity decreased by EUR 218 million to EUR 28.5 billion as of January 1, 2018.

The group's total assets increased by 0.4 %, or EUR 2.1 billion, from EUR 472.3 billion as of December 31, 2017 to EUR 474.5 billion as of March 31, 2018.

The group's operating result before valuation and promotional activities amounted to EUR 374 million for the three months ended March 31, 2018, compared with EUR 500 million for the corresponding period in 2017. The main driver for the group's operating result before valuation and promotional activities during the three months ended March 31, 2018 was net interest income. The group's operating result before valuation and promotional activities is before (i) risk provisions for the 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:

- There was no income or expense from risk provisions for the three months ended March 31, 2018, compared with expenses in an amount of EUR 2 million for the corresponding period in 2017;
- Negative effects of EUR 11 million as market values of securities and equity investments decreased in the three months ended March 31, 2018, compared with positive effects of EUR 19 million[1] for the corresponding period in 2017;
- Net expenses in an amount of EUR 11 million for the three months ended March 31, 2018, due to fair value changes of derivatives used exclusively for hedging purposes in closed risk positions, compared with net expenses in an amount of EUR 14 million for the corresponding period in 2017[2]; and
- Expenses relating to promotional activities in an amount of EUR 84 million for the three months ended March 31, 2018, compared with expenses in an amount of EUR 63 million for the corresponding period in 2017.

The group's consolidated result for the three months ended March 31, 2018, amounted to EUR 228 million compared with EUR 421 million for the corresponding period in 2017.

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[1] With effect from June 30, 2017, figures disclosed under securities and equity investments include gains from investments accounted for using the equity method. Comparative figures for prior periods have been restated accordingly. Therefore, figures for the period ended March 31, 2017 and March 31, 2018 are not comparable with figures disclosed under securities and equity investments prior to June 30, 2017.

[2] 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.

	(EUR in millions)		(in %)
SME Bank & Private Clients (Mittelstandsbank & Private Kunden) (1)	**12,657**	**12,195**	**4**
Customized Finance & Public Clients (Individualfinanzierung & Öffentliche Kunden) (1)	**2,229**	**2,405**	**-7**
Equity Financing (1)	**17**	**2**	**750**
Export and project finance (KfW IPEX-Bank)	**3,305**	**2,102**	**57**
Promotion of developing countries and emerging economies (2)	**468**	**1,247**	**-62**
of which KfW Entwicklungsbank	*414*	*1,092*	*-62*
of which DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	*54*	*155*	*-65*
Financial markets	**185**	**269**	**-31**
Total promotional business volume (2) (3)	**18,861**	**18,220**	**4**

(1) With effect from April 1, 2018, KfW reorganized its domestic promotional business, which it had previously conducted through its business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) based on a distinction between customer groups, into three business sectors, which are characterized by different operating models. These business sectors include SME Bank & Private Clients (Mittelstandsbank & Private Kunden), Customized Finance & Public Clients (Individualfinanzierung & Öffentliche Kunden) and Equity Financing. For a description of the new business sectors' activities, see "KfW—General—Overview."

(2) No adjustments to the promotional business volume for the three months ended March 31, 2018 were made by KfW IPEX-Bank relating to export and project finance that was refinanced under certain of *SME Bank & Private Clients'* promotional programs, compared to adjustments of EUR 61 million for the corresponding period in 2017.

(3) 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 18.9 billion for the three months ended March 31, 2018 from EUR 18.2 billion for the corresponding period in 2017. This increase was largely driven by increased commitments in KfW's business sector Export and project finance as well as in its domestic business sector SME Bank & Private Clients.

Commitments in the SME Bank and Private Clients business sector amounted to EUR 12.7 billion for the three months ended March 31, 2018 compared to EUR 12.2 billion for the corresponding period in 2017. This increase was mainly attributable to increased commitments under KfW's innovation financing programs, especially due to a strong demand for the ERP-Digitalization and Innovation Program.

Commitments in the business sector Customized Finance and Public Clients decreased to EUR 2.2 billion for the three months ended March 31, 2018 from EUR 2.4 billion for the corresponding period in 2017. This decrease was primarily driven by a decrease in commitments for municipal and social infrastructure (EUR 0.4 billion) and in the refinancing of *Landesförderinstitute* (EUR 0.3 billion) which was partially offset by an increase in global loans to selected financial institutions (EUR 0.5 billion) and an increase under the program for the refinancing of export loans covered by federal guarantees (EUR 0.1 billion).

Commitments in the business sector Equity Financing increased to EUR 17 million for the three months ended March 31, 2018 from EUR 2 million for the corresponding period in 2017. KfW invested this amount via the ERP Venture Capital Fund.

Commitments in KfW's Export and project finance business sector for the three months ended March 31, 2018, amounted to EUR 3.3 billion compared to EUR 2.1 billion for the corresponding period in 2017. This increase is attributable to KfW IPEX-Bank's increased commitments in various sectors during the three months ended March 31, 2018 as compared to the corresponding period in 2017.

Sources of Funds

The volume of funding raised in the capital markets for the four months ended April 30, 2018 totaled EUR 31.9 billion, of which 52.8% was raised in euro, 34.7% in U.S. dollar and the remainder in eight other currencies.

Capitalization and Indebtedness of KfW Group as of March 31, 2018

	(EUR in millions)
Borrowings	
Short-term funds	36,348
Bonds and other fixed-income securities	372,107
Other borrowings	14,015
Total borrowings	422,470
Equity	
Paid-in subscribed capital (1)	3,300
Capital reserve (2)	8,447
Reserve from the ERP Special Fund	1,191
Retained earnings	15,963
Fund for general banking risks	600
Revaluation reserve	-650
Total equity	28,851
Total capitalization	451,321

(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, 2018, 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, 2018 is not necessarily indicative of its capitalization to be recorded as of December 31, 2018.

Total equity increased by EUR 109 million from EUR 28,742 million as of December 31, 2017 to EUR 28,851 million as of March 31, 2018. This increase mainly reflected (i) KfW Group's consolidated result of EUR 228 million for the three months ended March 31, 2018 and (ii) an increase of EUR 99 million in revaluation reserves due to valuation profits being recognized directly in equity relating to pensions and own credit risk. Furthermore, this increase was due to significant effects resulting from the adoption of the transition provisions of IFRS 9 which resulted in (i) an increase of EUR 236 million to opening retained earnings and (ii) a decrease of EUR 454 million to opening revaluation reserves, in each case as of January 1, 2018.

In connection with the phase-in of the analogous application of banking supervisory law to KfW, the provisions of the EU Capital Requirements Regulation (Regulation EU No 575/2013, "CRR"), the German Banking Act (*Kreditwesengesetz*) and the German Solvency Regulation (*Solvabilitätsverordnung*), which require banks to have adequate own funds (*Eigenmittel*) for the conduct of their business, have become applicable to KfW by analogy with effect from January 1, 2016. In June 2017, KfW received the approval from the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or "BaFin") to calculate its regulatory capital requirements following the advanced internal ratings-based approach ("IRBA") for the vast majority of its portfolio as of June 30, 2017. In line with regulatory requirements, KfW intends to obtain additional approval for other sub-portfolio segments by 2022.

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
4th quarter 2016	0.4	1.8
1st quarter 2017	0.9	2.1
2nd quarter 2017	0.6	2.3
3rd quarter 2017	0.7	2.7
4th quarter 2017	0.6	2.9

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

Germany's gross domestic product ("GDP") continued to grow, increasing by 0.6% after price, seasonal and calendar adjustments in the fourth quarter of 2017 compared to the third quarter of 2017. Compared to the previous quarter, positive contributions to growth came mainly from foreign demand. According to provisional calculations, exports increased by 2.7% and contributed markedly to economic growth in the fourth quarter of 2017. Imports increased by 2.0% during the same period. As regards domestic demand, there were mixed signals. While household final consumption expenditure remained rather stable at the previous quarter's level, government final consumption expenditure increased by 0.5%. Gross fixed capital formation in machinery and equipment increased by 0.7% compared to the third quarter of 2017. Gross fixed capital formation in construction decreased by 0.4% compared to the third quarter of 2017.

In a year-on-year comparison, in price and calendar-adjusted terms, the German economy grew by 2.9% in the fourth quarter of 2017, following increases of 2.7% in the third quarter of 2017 and 2.3% in the second quarter of 2017, in each case compared to the corresponding periods in 2016.

Source: Statistisches Bundesamt, Detailed gross domestic product results for the 4th quarter of 2017, press release of February 23, 2018 (https://www.destatis.de/EN/PressServices/Press/pr/2018/02/PE18_058_811.html).

April 2017	0.0	2.0
May 2017	-0.2	1.5
June 2017	0.2	1.6
July 2017	0.4	1.7
August 2017	0.1	1.8
September 2017	0.1	1.8
October 2017	0.0	1.6
November 2017	0.3	1.8
December 2017	0.6	1.7
January 2018	-0.7	1.6
February 2018	0.5	1.4
March 2018	0.4	1.6

In March 2018, consumer prices in Germany rose by 1.6% compared to March 2017. The inflation rate thus increased slightly. In the three preceding months the rate of inflation had declined gradually. Compared to March 2017, the prices of energy products increased by 0.5% in March 2018. Compared to March 2017, in March 2018 price rises were recorded especially for heating oil (+5.4%), electricity (+1.5%) and central and district heating (+0.8%). In contrast, price decreases were recorded for solid fuels (–1.6%), gas (–1.4%) and motor fuels (–0.7%). Excluding energy prices, the inflation rate in March 2018 would have been 1.6% as well.

Compared to March 2017, food prices rose 2.9% in March 2018. The prices of goods overall were up 1.4% in March 2018 compared with March 2017, while prices of services overall rose by 1.8%. A major factor contributing to the increase in service prices was an increase in net rents exclusive of heating expenses (+1.6%).

Compared to February 2018, the consumer price index rose by 0.4% in March 2018. In a month-on-month comparison, seasonal price rises were observed especially for clothing (+5.8%) and footwear (+4.4%), in particular due to the changeover to the spring and summer collection. Marked month-on-month price increases were also recorded for package holidays (+2.0%) and air tickets (+1.5%), one reason being the early date of Easter. Food prices rose by 0.2% in March 2018 compared to February 2018, while energy prices declined by 0.6% and thus had a dampening effect on the month-on-month price increase in March 2018.

Source: Statistisches Bundesamt, Consumer prices in March 2018: +1.6% on March 2017, press release of April 13, 2018 (https://www.destatis.de/EN/PressServices/Press/pr/2018/04/PE18_135_611.html).

March 2017	4.0	3.9
April 2017	4.1	3.9
May 2017	3.6	3.8
June 2017	3.6	3.8
July 2017	3.6	3.7
August 2017	3.8	3.7
September 2017	3.5	3.7
October 2017	3.7	3.6
November 2017	3.4	3.6
December 2017	3.5	3.5
January 2018	3.6	3.5
February 2018	3.8	3.5
March 2018	3.5	3.4

(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 601,000 persons, or 1.4%, from March 2017 to March 2018. Compared to February 2018, the number of employed persons in March 2018 increased by approximately 32,000, or 0.1%, after adjustment for seasonal fluctuations.

In March 2018, the number of unemployed persons decreased by approximately 192,000, or 11.2%, compared to March 2017. Adjusted for seasonal and irregular effects (trend cycle component), the number of unemployed persons in March 2018 stood at 1.48 million, which was a decrease of roughly 16,000 compared to February 2018.

Sources: Statistisches Bundesamt, 44.4 million persons in employment in March 2018, press release of April 27, 2018 (https://www.destatis.de/EN/PressServices/Press/pr/2018/04/PE18_151_132.html); Statistisches Bundesamt, Genesis-Online Datenbank, Result 13231-0001, Unemployed persons, persons in employment, economically active population, unemployment rate: Germany, months, original and adjusted data (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 2018	January to March 2017
Trade in goods, including supplementary trade items	66.1	66.0
Services	-0.7	-2.5
Primary income	19.9	21.3
Secondary income	-14.2	-16.8
Current account	**71.1**	**68.0**

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

Source: Statistisches Bundesamt, German exports in March 2018: -1.8% on March 2017, press release of May 8, 2018 (https://www.destatis.de/EN/PressServices/Press/pr/2018/05/PE18_161_51.html).

Federal Government ("Federal Government") of the Federal Republic of Germany ("Federal Republic"). KfW promotes its financing activities under the umbrella brand name KfW Bankengruppe ("KfW Group").

With total assets of EUR 472.3 billion as of December 31, 2017, KfW is Germany's flagship promotional bank and ranks among Germany's largest financial institutions. KfW's promotional business volume amounted to EUR 76.5 billion in 2017. For more information on KfW's promotional business volume, see the table "Promotional Business Volume by Business Sector" in "Business—Introduction."

Until March 31, 2018, KfW conducted its business in the following business sectors:

- Mittelstandsbank (SME Bank), which promoted 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), which provided housing-related loans and grants as well as financing for education to private individuals, offered financing for infrastructure projects, primarily for municipalities, and granted 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 countries and emerging economies: 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
- Financial markets, which comprises KfW's treasury, funding, asset management and other capital markets-related activities.

With effect from April 1, 2018, KfW reorganized its domestic promotional business, which it had previously conducted through its business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) based on a distinction between customer groups, into the following three business sectors, which are characterized by different operating models:

- SME Bank & Private Clients (Mittelstandsbank & Private Kunden) offers highly standardized products for SMEs, business founders, start-ups, self-employed professionals as well as private individuals;
- Customized Finance & Public Clients (Individualfinanzierung & Öffentliche Kunden) provides individual financing solutions for municipal and social infrastructure, offers corporate loans and project finance, as well as customized financing for financial institutions and *Landesförderinstitute*; and
- Equity Financing will be conducted through a new wholly owned subsidiary, which is expected to commence its operations in the course of 2018.

011-49-69-74310. KfW also maintains branch offices in Berlin and Bonn, Germany, as well as a liaison office to the European Union ("EU") 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* 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, SMEs, 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 business sector 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) 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. In August 2003, 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 laws and may adopt all necessary measures to ensure such compliance. Legal supervision primarily 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 portions of the KWG and the CRR, including relevant implementing rules and regulations, apply by analogy to KfW. The analogous application of banking supervisory law to KfW has been phased in gradually, with the majority of the rules, regulations and enforcement powers described above having become applicable as of 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 para. 1 no. 8 of the 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 in the EU as level 1 assets pursuant to Article 10 para. 1 lit. (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 of the KWG apply to KfW by analogy. To comply with these requirements, certain adjustments were made to the committee structure of KfW's Board of Supervisory Directors in 2014. For more information on the committee structure of KfW's Board of Supervisory Directors, see "Management and Employees—Board of Supervisory Directors."

As of January 1, 2018, the bank regulatory requirements for remuneration policies set forth in Section 25a of the KWG and further specified in the German Remuneration Regulation for Credit Institutions (*Institutsvergütungsverordnung*, or "IVV") fully apply to KfW. Previously, BaFin had granted KfW a transitional period from January 1, 2016 until January 1, 2018 to prepare for the full application of the IVV.

voluntary application of all material IRBA rules and each amounted to 22.3%, was mainly due to the effects of the IRBA approval process. Until KfW receives full approval as an advanced IRBA institution, sub-portfolios that have not yet been approved continue to be valued following the generally more capital-intensive standardized approach for credit risks due to the above-mentioned gradual implementation of the IRBA. As part of the IRBA approval process, adjustments to the methods of collateral valuation for final-borrower assignments in the domestic promotional business were necessary, which resulted in an increase of risk-weighted assets. For more information on KfW's other key indicators, including the capital ratios based on the analogous application of the advanced IRBA, see "Group management report—Risk report—Overview of key indicators" included in Exhibit (e).

In connection with the application of the appropriate requirements of the capital adequacy regime, the overall capital requirement for KfW Group's total capital ratio as of December 31, 2017 was 14.3%, consisting of a total supervisory review and evaluation process capital requirement ("TSCR") of 13.0% plus a Capital Conservation Buffer and a Countercyclical Capital Buffer. The TSCR for KfW Group includes a three percentage points supervisory review and evaluation process ("SREP") surcharge and an additional, IT-related surcharge of two percentage points, both imposed by BaFin in 2017. A SREP surcharge is generally meant to reflect the specific risk situation of each bank. In connection with standard audits of KfW conducted by Deutsche Bundesbank and BaFin in 2016, the banking supervisory authorities reported findings related to KfW's IT. As a consequence, BaFin has imposed the IT-related additional temporary capital requirements until the issues underlying the findings have been resolved. The need for modernization of KfW's IT architecture had already been identified before the standard audits were conducted and major projects to address the need for IT–related updates and improvements have been underway at KfW for some time.

In connection with further standard audits of KfW conducted by Deutsche Bundesbank and BaFin in 2017, the banking supervisory authorities conducted audits related to KfW's outsourcing management and internal auditing. In April 2018, BaFin notified KfW that it will impose additional temporary capital requirements as a result of findings from these audits until the issues underlying these findings have been resolved. These additional temporary capital requirements are expected to amount to 0.75%, resulting in a total surcharge of 2.75% for IT-, internal-auditing- and operational-risk-management-related findings. Furthermore, BaFin notified KfW that it will require KfW to maintain a capital buffer of 1% for Other Systemically Important Institutions (O-SIIs) in Germany. The buffer is expected to be phased-in over a period of three years starting in 2019.

As of January 1, 2016, KfW is also, by analogy, subject to the large-exposures regime of part IV of the CRR as supplemented by the KWG and relevant implementing rules and regulations. 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 applies the provisions concerning leverage ratio with effect from January 1, 2016 by analogy. Under this regime, the ratio of KfW's Tier 1 capital to the carrying value of assets and off-balance sheet exposures is calculated on a consolidated basis. The leverage ratio is monitored internally and expected to become part of the prudential requirements starting in 2020.

According to a decision made by the supervisory authority BaFin in December 2015, certain provisions of the CRR such as own funds requirements, large exposures and leverage need only be considered at the group level (consolidated basis) and not at the entity level.

Although it was already subject to the German Anti-Money Laundering Act (*Geldwäschegesetz*), on January 1, 2016 KfW also became subject to the provisions of the KWG concerning money laundering, terrorist financing and other criminal offences at the group and entity levels.

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1 According to Article 26(2) CRR.

grounds, KfW is generally exempt from EU and national disclosure requirements and from the EU Bank Recovery and Resolution Directive.

Supervisory Structure and Enforcement Powers. The supervision of KfW's compliance with 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 for 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. Until KfW has implemented a system to comply with these reporting and information requirements, KfW will provide the supervisory authorities with relevant reports and information, the form of which has been agreed with the supervisory authorities. As agreed with the supervisory authorities, KfW will implement a fully-fledged regulatory reporting system by 2020.

In addition, the KfW Regulation subjects KfW by analogy to certain enforcement powers of BaFin, which comprise, among other matters, the right to demand, under certain circumstances, increases of regulatory own funds and/or a reduction of regulatory risk, or to demand changes in the senior management of KfW.

Since KfW does not qualify as a regulated entity under national or EU bank regulatory law, KfW did not become subject to the changes in the national and EU bank supervisory structure that have taken effect in recent years. 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 2014 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 did not qualify as a significant credit institution and to date it has not been qualified as such in connection with subsequent annual reviews of large German financial institutions conducted by the ECB. Accordingly, KfW IPEX-Bank is not supervised directly by the ECB, but currently continues 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)." For more information on the SSM, see "Federal Republic of Germany—Monetary and Financial System—Financial System—European Financial System—European System of Financial Supervision and European Banking Union."

Regulatory Costs. As KfW had already applied significant parts of bank regulatory law on a voluntary basis to most of its activities, its previous voluntary compliance facilitated its compliance with the rules and regulations becoming mandatory by operation of the KfW Regulation. Nonetheless, compliance is expected to continue to entail special organizational efforts and related costs currently estimated to amount to approximately 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 (the "ERP"), which is also known as the Marshall Plan. 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 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*) 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 auditor for the fiscal year ended December 31, 2017 is Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft ("EY").

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

The auditor's report of EY for the fiscal year ended December 31, 2017, dated February 27, 2018, 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, EY 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 168 of Exhibit (e).

- Export and project finance (KfW IPEX-Bank);
- Promotion of developing countries and emerging economies (KfW Entwicklungsbank and DEG); and
- Financial markets, which comprises KfW's treasury, funding, asset management and other capital markets-related activities.

With effect from April 1, 2018 KfW reorganized its domestic promotional business, which it had previously conducted through its business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) based on a distinction between customer groups, into the following three business sectors, which are characterized by different operating models:

- SME Bank & Private Clients (Mittelstandsbank & Private Kunden);
- Customized Finance & Public Clients (Individualfinanzierung & Öffentliche Kunden); and
- Equity Financing.

For a description of the new business sectors' activities, see "General—Overview."

All products of the former business sectors Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) continue to exist in one of the three new business sectors SME Bank & Private Clients, Customized Finance & Public Clients or Equity Financing. The business sectors Exports and project finance, Promotion of developing countries and emerging economies and Financial markets remain unchanged.

Because it primarily covers the fiscal year ended December 31, 2017, the following description of KfW's business activities is based on the organizational structure in place until March 31, 2018.

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,		Year-to-Year
	2017	2016	% change
	(EUR in millions)		(in %)
Mittelstandsbank (SME Bank)	**21,899**	**21,388**	**2**
Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	**29,913**	**33,698**	**-11**
Export and project finance (KfW IPEX-Bank)	**13,751**	**16,072**	**-14**
Promotion of developing countries and emerging economies	**9,749**	**8,844**	**10**
of which KfW Entwicklungsbank	*8,197*	*7,290*	*12*
of which DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	*1,551*	*1,553*	*0*
Financial markets	**1,541**	**1,274**	**21**
Total promotional business volume (1) (2)	**76,481**	**81,002**	**-6**

and economic capital required at year-end 2017. In general, a lower percentage in economic capital required compared to the percentage of commitments outstanding illustrates a below average risk associated therewith. The percentage of economic capital required of the business sector Financial markets also includes the economic capital required for treasury activities.

RELATIVE SIZE OF EACH BUSINESS SECTOR

	As of December 31, 2017	
	Commitments outstanding	Economic capital required (1)
Mittelstandsbank	24 %	20 %
Kommunal- und Privatkundenbank/Kreditinstitute	42 %	29 %
Export and project finance (KfW IPEX-Bank)	15 %	7 %
Promotion of developing countries and emerging economies (KfW Entwicklungsbank and DEG)	7 %	11 %
Financial markets	12 %	6 %
Total (in EUR billions)	**505.6**	**18.2**

(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 39 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. Until March 31, 2018, KfW's predominant domestic finance activities were conducted by the business sectors Mittelstandsbank and Kommunal- und Privatkundenbank/Kreditinstitute. Further promotional activities targeting the domestic market are reported under the Financial markets business sector. For a description of the reorganization of KfW's domestic promotional business activities with effect from March 31, 2018, see "General—Overview" and "—Introduction" above. Because it primarily covers the fiscal year ended December 31, 2017, the following description of KfW's domestic promotional business is based on the organizational structure in place until March 31, 2018.

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 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. KfW loans on-lent by commercial banks are normally collateralized by liens on real property, 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 requirements defined for the particular lending program.

In recent years, KfW has modernized its application and approval process for loans with the aim of obtaining a more efficient, automated and accelerated process. For this purpose, KfW developed a digital online platform for its highly standardized loan programs. The online platform, which was launched in 2014 as a tool for the intermediate banks, provides immediate feedback as to KfW's approval of the loan in the form of an electronic confirmation from KfW. Most of the commercial banks KfW works with have already joined the platform. Since the end of 2015, all loan applications under the housing investment programs can be handled through this platform. In 2017, the platform was expanded to support promotional programs for commercial enterprises (including programs for SMEs and environmental investment programs). KfW aims to offer most of the domestic promotional programs via this platform by the end of 2018.

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 some lending programs for start-up financing. Moreover, it is also applied to education lending programs. 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 some of 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.

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 selected financial institutions in Germany and Europe. Most of the *Landesförderinstitute* are independent public law institutions and benefit from explicit statutory guarantees by the respective German federal state (*Land*). Each *Landesförderinstitut* is responsible for promotional matters within its *Land*. KfW cooperates with 16 *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 they on-lend as individual loans and leases to finance SMEs, housing projects, municipal infrastructure projects and, increasingly, energy efficiency projects. In the case of *Landesförderinstitute*, non-program-based global loans are no longer offered as new business, but only in connection with existing agreements.

Mittelstandsbank (SME Bank)

KfW's Mittelstandsbank business sector supports SMEs, large-scale enterprises, 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 2017, Germany had an estimated 3.71 million SMEs (defined for the purposes of the survey as corporations with an annual group turnover of up to EUR 500 million) in 2016. During the same period, SMEs accounted for 46% of gross investment by the German corporate sector, employed 70.4% of the workforce and trained approximately 90% 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 (2017: EUR 21.3 billion, 2016: EUR 20.7 billion), mezzanine programs (2017: EUR 0.4 billion, 2016: EUR 0.6 billion) and equity investments (2017: EUR 0.1 billion, 2016: EUR 0.1 billion).

Mittelstandsbank primarily offers loan programs. Under some loan programs 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. For instance, 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. The interest rate of these loans takes

	Year ended December 31,		Year-to-Year
	2017	2016	% change
	(EUR in millions)		(in %)
Start-up financing and general investment	9,742(1)	10,052	*-3*
Innovation	1,961	608	*+223*
Environmental investment	10,196	10,727	*-5*
Total commitments	**21,899**	**21,388**	***+2***

(1) Thereof, an amount of €150 million related to the bridge loan granted to Air Berlin which was based on a special mandate given by the Federal Government to KfW in accordance with article 2 paragraph 4 of the KfW Law, a so-called *Zuweisungsgeschäft*. KfW's risks under such loan were fully secured by a guarantee from the Federal Government. The loan was categorized as default and the Federal Republic fully compensated KfW under the guarantee in January 2018.

To support the German economy, Mittelstandsbank committed financing in the amount of EUR 21.9 billion in 2017 (2016: EUR 21.4 billion). This increase was mainly attributable to increased commitments in the field of innovation financing, particularly under the new ERP-Digitalization and Innovation Program. During the period from the start of the program in July 2017 to December 31, 2017, EUR 1.5 billion were committed. From the start of the program in July 2017 to the end of 2017, its credit volume reached EUR 1.5 billion. Among KfW's environmental investment programs the *Energieeffizienzprogramm* ("Energy Efficiency Program") surpassed previous year's level considerably as commitments increased from EUR 5.2 billion in 2016 to EUR 5.7 billion in 2017.

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 2017, commitments in this area amounted to EUR 9.7 billion and declined slightly compared to the previous year (2016: EUR 10.1 billion). While commitments in the area of general investment declined from EUR 6.4 billion in 2016 to EUR 6.0 billion in 2017, Mittelstandsbank's start-up financings increased slightly (2017: EUR 3.8 billion, 2016: EUR 3.6 billion).

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. Commitments in the field of innovation financing increased significantly to EUR 2.0 billion in 2017 (2016: EUR 0.6 billion) due to a successful launch of the new ERP-Digitalization and Innovation Program.

In 2017, KfW took the first step to realign its venture capital financing by extending the ERP-Venture Capital Fund Investments program to venture debt financings as well as by signing a further investment in the High-Tech Start-up Fund (HTGF III). Commitments in the area of equity financing increased to EUR 0.13 billion in 2017 and exceeded the previous year's level by EUR 36 million.

In June 2017, KfW's Board of Supervisory Directors approved the incorporation of a new KfW subsidiary for its venture capital financing activities. The new subsidiary will be established in 2018 as a financial institution with KfW being the sole shareholder (100%). It will be subject to oversight by a supervisory board consisting of representatives from KfW, the Federal Ministry of Finance, the Federal Ministry of Economic Affairs and Energy and external equity experts. The new subsidiary will bundle and expand KfW's current activities in venture capital financing. This includes KfW's investments in the High-Tech Start-up Fund, the public venture capital co-investment fund named coparion, and all activities under the program ERP Venture declined from EUR 10.7 billion in 2016 to EUR 10.2 billion in 2017, particularly due to lower commitments under KfW's Renewable Energies Program. Starting from an exceptional high level in 2016 (EUR 4.7 billion), commitments under KfW's Renewable Energies Program decreased moderately to EUR 3.9 billion in 2017. Disbursements under this 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 "Financial Markets – Funding"). Commitments under the KfW's Energy Efficiency Program increased from EUR 5.2 billion in 2016 to EUR 5.7 billion in 2017. Last year, the program was expanded to further include the assignment of grants for the prevention or use of waste heat.

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 the *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
	2017	2016	% change
	(EUR in millions)		(in %)
Housing investment programs	18,928	20,825	*-9*
Education programs	2,216	2,319	*-4*
Municipal infrastructure programs	3,924	4,074	*-4*
Global funding facilities to *Landesförderinstitute*	3,921	4,366	*-10*
Program for the refinancing of export loans	275	764	*-64*
Global loans to selected financial institutions	650	1,350	*-52*
Total commitments (1)	**29,913**	**33,698**	***-11***

(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 2017, Kommunal- und Privatkundenbank/Kreditinstitute's commitments amounted to EUR 29.9 billion (2016: EUR 33.7 billion). The decline compared to 2016 was mainly attributable to a decrease in housing investment programs, particularly for energy-efficient construction and the promotion of home ownership, and to a decrease of global loans to other financial institutions.

Housing Investment Programs

Kommunal- und Privatkundenbank/Kreditinstitute's housing investment programs provide funds for the promotion of home ownership, for energy-efficient construction and refurbishment measures, and for the improvement of the security of and accessibility to or within existing homes. Some of these programs are subsidized through interest rate reductions paid for by federal funds. Commitments in 2017 amounted to EUR 18.9 billion (2016: EUR 20.8 billion), of which EUR 14.2 billion (2016: EUR 15.5 billion) were granted for energy-efficient construction and refurbishment measures and EUR 4.2 billion (2016: EUR 4.9 billion) for home ownership promotion programs.

ordinary on-lending scheme involving commercial banks. The latter is used for infrastructure investments by private companies that are majority-owned by municipal authorities and social investments made by non-profit organizations. Some of the municipal infrastructure programs are subsidized by federal funds. In total, commitments for municipal infrastructure programs decreased to EUR 3.9 billion in 2017 from the previous year's level of EUR 4.1 billion due to slightly lower credit demand from municipalities.

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
	2017	2016	% change
	(EUR in millions)		(in %)
Global funding facilities to *Landesförderinstitute*	3,921	4,366	*-10*
Program-based global loans to *Landesförderinstitute*	1,267	1,954	*-35*
Non program-based global loans to *Landesförderinstitute*	30	20	*50*
Non program-based global loans to selected financial institutions in Germany and Europe	650	1,350	*-52*
Total commitments (1)	**5,868**	**7,690**	***-24***

(1) Commitments represent the volume of funds committed for loans and other business transactions (with the exception of program-based global loans to *Landesförderinstitute* and the BAföG government loan program) 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* and the BAföG government loan program, commitments represent the actual volume of funds disbursed in the relevant year.

In 2017, Kommunal- und Privatkundenbank/Kreditinstitute granted global funding facilities and program-based global loans to *Landesförderinstitute* as well as non-program-based global loans to selected *Landesförderinstitute*. The latter were granted only in connection with existing agreements. In 2017, global funding facilities to *Landesförderinstitute* amounted to EUR 3.9 billion (2016: EUR 4.4 billion) and program-based global loans to *Landesförderinstitute* amounted to EUR 1.3 billion (2016: EUR 2.0 billion). Non program-based global loans to selected *Landesförderinstitute* were granted in the amount of EUR 30 million in 2017 (2016: EUR 20 million). The decrease in the refinancing of *Landesförderinstitute* was mainly driven by decreased demand.

Besides its commitments to *Landesförderinstitute*, Kommunal- und Privatkundenbank/Kreditinstitute grants global loans to selected 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 cooperate in the field of SME financing in Europe. The financial institutions in turn break down the global loans and extend individual loans and leases to SMEs. In 2017, global loans to selected financial institutions in Germany and Europe amounted to EUR 0.7 billion (2016: EUR 1.4 billion), of which EUR 0.7 billion were attributable to the refinancing of leasing contracts (2016: EUR 1.2 billion). In 2017, there was no refinancing of European financial institutions (2016: EUR 0.2 billion) due to prevailing market conditions. The demand for refinancing of leasing contracts in Germany also decreased significantly in 2017.

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 of the Federal Government referred to as "Hermes

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. 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."

Total assets of KfW IPEX-Bank (IFRS, before consolidation) as of December 31, 2017 amounted to EUR 26.4 billion (December 31, 2016: EUR 30.6 billion). Total outstanding loans and guarantees (including promotional activities) for KfW's business sector Export and project finance amounted to EUR 51.3 billion as of December 31, 2017 (year-end 2016: EUR 56.2 billion). KfW IPEX-Bank is headquartered in Frankfurt am Main, Germany, and maintains a branch office in London, United Kingdom and representative offices in nine locations outside Germany. As of December 31, 2017, KfW IPEX-Bank employed 679 persons, excluding managing directors but including temporary personnel (December 31, 2016: 669).

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 – BaFin and the Deutsche Bundesbank. With respect to the SSM, KfW IPEX-Bank currently does not qualify as a significant credit institution and is therefore not directly supervised by the ECB, but rather continues to be supervised by BaFin in cooperation with Deutsche Bundesbank. For additional information on KfW IPEX-Bank and the SSM, see "KfW—General—Supervision and Regulation—Regulation—Supervisory Structure and Enforcement Powers." For more information on the SSM, see "Federal Republic of Germany—Monetary and Financial System—Financial System—European Financial System—European System of Financial Supervision and European Banking Union."

KfW IPEX-Bank (controlled company) signed a profit transfer agreement with KfW Beteiligungsholding GmbH (controlling company) in order to form a corporate income tax ("CIT") fiscal unity. Under this profit transfer agreement, KfW IPEX-Bank is required to transfer its entire annual profit under applicable German commercial law to KfW Beteiligungsholding GmbH effective from the end of the fiscal year ended December 31, 2016.

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 Federal Government, KfW delegated the mandate of the management of the Shipping CIRR Program and the ERP (European Recovery Program) Export Financing Program to KfW IPEX-Bank. Both programs are executed by KfW IPEX-Bank, applying strict "Chinese Walls". The programs offer fixed interest rate loans to buyers based on the CIRR (Commercial Interest Reference Rate), which is a minimum interest rate prescribed by the OECD for officially supported financings in order to ensure competitive neutrality. The Shipping CIRR Program is open to banks financing ships built in German shipyards and offers a refinancing option through KfW. The ERP Export Financing Program supports lending for German exports to emerging and developing countries combined with fixed refinancing through KfW. These loans are supported through the 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 and European 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 2017, KfW IPEX-Bank refinanced loan commitments for export and project finance under KfW's promotional programs in the amount of EUR 372 million (2016: EUR 273 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, 2017, outstanding loans and guarantees (including promotional activities) outside Germany for KfW's business sector Export and project finance amounted to EUR 41 billion, of which EUR 10 billion, or 23%, were export finance loans which are fully or partly guaranteed by HERMES.

Commitments

In 2017, total commitments of the Export and project finance business sector decreased to EUR 13.8 billion including commitments under the CIRR scheme for the refinancing of banks , which is supported by the federal budget (2016: EUR 16.1 billion). The following table shows commitments in KfW's business sector Export and project finance in 2017 and 2016.

years, and do not include amounts disbursed in the relevant year pursuant to commitments made in prior years.

New commitments in 2017 amounted to EUR 13.8 billion compared to EUR 16.1 billion in 2016. This decrease is primarily due to a demanding and increasingly competitive market environment with very low interest rates and high liquidity in which a balanced risk-to-return-ratio remained key for KfW IPEX-Bank resulting in the lower commitment volumes for 2017.

Commitments by Sector. The following table shows KfW IPEX-Bank's commitments by sectors in 2017 and 2016:

	Year ended December 31,		Year-to-Year
	2017	2016	% change
	(EUR in millions)		(in %)
Power, renewables and water	2,629	3,081	*-15*
Industries and services	2,057	1,986	*4*
Basic industries	2,014	1,646	*22*
Maritime industries	1,623	2,358	*-31*
Financial institutions, trade and commodity finance	1,473	2,065	*-29*
Aviation and rail	1,273	1,790	*-29*
Transport and social infrastructure	998	1,444	*-31*
CIRR scheme for bank refinancing (ship + ERP finance) (1)	1,685	1,701	*-1*
Total commitments	**13,751**	**16,072**	***-14***

(1) Starting in 2017 the CIRR scheme for bank refinancing includes commitments under the new "ERP Export Financing Program" (ERP-CIRR) amounting to EUR 0.03 bn.

In 2017, commitments of EUR 1.7 billion were provided under the CIRR scheme for bank refinancing (2016: EUR 1.7 billion) as the demand from potential borrowers remained relatively stable compared to the prior year. The highest commitments were achieved in the power, renewables and water sector with EUR 2.6 billion (2016: EUR 3.1 billion) including financing for large onshore and offshore wind farms, followed by the industries and services sector with stable commitments of EUR 2.1 billion (2016: EUR 2.0 billion) and the basic industries sector with commitments of EUR 2.0 billion (2016: EUR 1.6 billion).

Commitments by Geographic Area. KfW IPEX-Bank's commitments are reported for the following three regions in 2017: Germany; Europe (excluding Germany, but including Russia and Turkey); and the rest of the world. In 2017, KfW IPEX-Bank's commitments for project and export financing (excluding the CIRR scheme for bank refinancing) within Germany decreased to EUR 2.8 billion (2016: EUR 3.4 billion). In 2017, commitments in Europe (excluding Germany, but including Russia and Turkey) amounted to EUR 4.5 billion (2016: EUR 5.5 billion). KfW IPEX-Bank's commitments in the rest of the world amounted to EUR 4.8 billion in 2017 (2016: EUR 5.5 billion). Commitments under the CIRR scheme (2017: EUR 1.7 billion; 2016: EUR 1.7 billion) are transregional.

Revolving credit facilities for cash drawings	*1,383*	*1,514*	*-9*
Guarantees	*685*	*547*	*25*
Debt instruments	*113*	*0*	*100*
Project finance (1)	2,550	3,199	*-20*
Asset finance (1)	67	603	*-89*
Acquisition finance (1)	168	149	*13*
Commodity Trade Finance (2)	30	—	*100*
CIRR scheme for bank refinancing (ship+ERP)	1,685	1,701	*-1*
Total commitments	**13,751**	**16,072**	**-14**

(1) The product categories project finance, asset finance and acquisition finance may also include loans, guarantees, lease finance or revolving credit facilities that are not attributed to any sub-category under the corporate transactions product category.

(2) New product category in 2017. (“Rohstoffhandelsfinanzierung”).

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 2017, EUR 184 million of loan disbursements were supported by the ERP Special Fund (2016: EUR 365 million).

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 Countries and Emerging Economies

In the Promotion of developing countries and emerging economies business sector, KfW, on behalf of the Federal Republic, provides financial assistance to developing countries and emerging economies, 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.

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	1,551	1,553	*-0.1*
Total commitments	**9,748**	**8,844**	***10***

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 2017, approximately 35% 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 or in the case of mandates, *i.e.*, grants funded by governmental or supranational entities and distributed using KfW's expertise and channels ("Mandates"), from the respective donor. 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 (*Finanzielle Zusammenarbeit* – "*FZ*") 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. As of December 31, 2017, approximately 87% of outstanding commitments refinanced with KfW funds were 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. As of December 31, 2017, approximately 71% of outstanding Financial Cooperation Promotional Loans were guaranteed by a special guarantee facility of the Federal Republic.

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.

of which KfW's funds refinanced in the capital markets	*4,862*	*5,112*	*-5*
Grant commitments	2,756	1,817	*52*
Mandates	466	239	*95*
Total commitments	**8,197**	**7,290**	***12***

(1) Includes also equity investments (2017: EUR 119 million, 2016: EUR 55 million)

Total commitments of KfW Entwicklungsbank increased by 12% to EUR 8,197 million in 2017 (2016: EUR 7,290 million) due to increased grant commitments especially for multi-sectoral projects, emergency assistance and social infrastructure projects. The relative share of loan commitments that were refinanced in the capital markets increased slightly to 98% in 2017 (2016: 97%).

In 2017, Asia accounted for 29% of KfW Entwicklungsbank's commitments (2016: 38%); Sub-Saharan Africa accounted for 21% (2016:18%); Middle East/North Africa accounted for 17% (2016: 13%); Europe/Caucasus accounted for 14% (2016: 12%); Latin America accounted for 15% (2016: 16%); and trans-regional commitments accounted for 4% (2016: 3%).

The following table shows KfW Entwicklungsbank's commitments by sector in 2017:

	Year ended December 31,				Year-to-Year
	2017		2016		% change
	(EUR in millions)	(in % of total)	(EUR in millions)	(in % of total)	(in %)
Economic infrastructure	2,437	*30*	2,516	*35*	*-3*
Social infrastructure	2,938	*36*	1,769	*24*	*66*
Financial sector	928	*11*	692	*9*	*34*
Production sector	381	*5*	209	*3*	*82*
Others (1)	1,513	*18*	2,104	*29*	*-28*
Total commitments	**8,197**	***100***	**7,290**	***100***	***12***

(1) Consists mainly of commitments made for environmental and 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, 2017, DEG maintained 13 representative offices in developing countries or emerging economies. In 2017, DEG employed an average of 569 persons (2016: 515). At year-end 2017, DEG's total assets (IFRS, before consolidation) amounted to EUR 5.7 billion (2016: EUR 6.3 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 aims in its private sector development activities:

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

which only part of DEG's activities are subject to CIT. 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 2017 and 2016:

DEG COMMITMENTS

	Year ended December 31,		Year-to-Year
	2017	2016	% change
	(EUR in millions)		(in %)
Loans	988	1,083	*-9*
Equity participations	475	438	*8*
Mezzanine financing	88	32	*175*
Total commitments	**1,551**	**1,553**	***-0.1***

Financial Markets

KfW's Financial 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 asset-backed securities ("ABS") and asset-backed commercial paper ("ABCP") portfolio as well as KfW's green bond portfolio, which are all 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").

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 assets at year-end 2017 were EUR 472.4 billion. EUR 422.2 billion, or 89.4% of this amount, was financed through borrowings (*i.e.*, from financial market funds or public funds). In addition, at year-end 2017, KfW had EUR 16.2 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, 73% of KfW Group's total borrowings outstanding at the end of 2017 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.

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 2017, benchmark bonds accounted for a funding volume of EUR 55.4 billion, or 71%, of KfW's total capital-market funding. Publicly-placed bonds outside the benchmark programs and private placements accounted for EUR 19.2 billion, or 24%, and EUR 3.6 billion, or 5%, respectively. Total capital-market funding in 2017 amounted to EUR 78.2 billion (2016: EUR 72.8 billion). KfW expects its volume of long-term funding to be raised in the capital markets in 2018 to be approximately EUR 70-75 billion.

In 2017, KfW conducted six new bond issues and one re-opening of a 2013 bond issue, one re-opening of a 2014 bond issue and two re-openings of 2015 bond issues (ten transactions in total in 2017) in an aggregate principal amount of EUR 31.5 billion under its euro benchmark program and six bond issues in an aggregate principal amount of USD 25.0 billion under its U.S. dollar benchmark program. In addition to the benchmark issues, three additional series of global notes and one green bond denominated in U.S. dollar were issued by KfW in 2017.

KFW'S BENCHMARK BOND ISSUES IN 2017

	Aggregate principal amount in billions	Maturity at issuance (in years)	Interest rate in % per annum
U.S. $-Benchmark I/2017	USD 5.0	5	2.125
U.S. $-Benchmark II/2017	USD 4.0	3	1.750
U.S. $-Benchmark III/2017	USD 4.0	5	2.125
U.S. $-Benchmark IV/2017	USD 5.0	3	1.625
U.S. $-Benchmark V/2017	USD 4.0	2	1.500
U.S. $-Benchmark VI/2017	USD 3.0	3	1.875
Euro-Benchmark I/2017	EUR 5.0	7	0.125
Euro-Benchmark II/2017	EUR 5.0	10	0.625
Euro-Benchmark III/2017	EUR 5.0	5	0.000
Euro-Benchmark IV/2017	EUR 5.0	7	0.125
Euro-Benchmark V/2017	EUR 5.0	10	0.500
Euro-Benchmark VI/2017	EUR 3.0	5	0.000
Euro-Benchmark IV/2013 (re-opening)	EUR 1.0	6	2.125
Euro-Benchmark III/2014 (re-opening)	EUR 1.0	7	1.500
Euro-Benchmark II/2015 (re-opening)	EUR 0.5	5	0.625
Euro-Benchmark I/2015 (re-opening)	EUR 1.0	8	0.625

In 2017, KfW's total new capital-market funding was raised in 10 different currencies and 145 separate capital market transactions. KfW's core currencies are the euro and the U.S. dollar, which together accounted for 88% of KfW's total new capital-market funding in 2017 (2016: 83%). The percentage of new funds raised in euros increased from 36% in 2016 to 53% in 2017, making it the most significant funding currency, whereas the percentage of new funds raised in U.S. dollars decreased from 47% to 34% over the same period. The percentage of new funds raised in pounds sterling decreased from 9% to 7%, making it KfW's third most significant funding

Australian dollar (AUD)	2.0	*3*
Japanese yen (JPY)	1.8	*2*
Other currencies (e.g., CAD, NZD and CNY)	0.5	*1*
Total	**78.2**	***100***

As part of its funding program, KfW links the proceeds of certain of its bonds, referred to by KfW as "green bonds," to its environmental investment program, Erneuerbare Energien– Standard (Renewable Energies –Standard). Through its green bond issuances, KfW aims to broaden its investor base by addressing socially responsible investors and to enhance capital markets' infrastructure to finance environmental projects. While net proceeds from the sale of its green bonds are used by KfW in its general business, upon closing of the transactions KfW simultaneously allocates an amount equal to the net proceeds of the green bonds (which proceeds may be converted into euros) to an internal account used to track the allocation of funds from its green bond issuances. Amounts matching requests for disbursements under KfW's Renewable Energies – Standard program will be deducted from the balance of this internal account on an ongoing basis, starting with the beginning of the calendar year and continuing until the balance has been completely reduced. The Renewable Energies – Standard program aims to promote the development of electricity from renewable resources. Measures financed through this program may include but are not limited to the following: photovoltaic equipment; onshore wind power plants and repowering measures; hydro-electric power stations; and equipment for the generation and use of biogas. The common objective of all projects financed under this program is the reduction of greenhouse gas emissions. Equipment for the use of fossil fuels or nuclear power is not financed under the program. KfW provides investors with information regarding the use of proceeds in terms of disbursements under the Renewable Energies – Standard program on a regular basis on its website. Unless otherwise indicated, information available on or accessible through KfW's website is not incorporated herein by reference.

KFW'S GREEN BOND ISSUES 2017

	Aggregate principal amount in billions	Maturity at issuance (in years)	Interest rate in % per annum
KfW EUR Green Bond	EUR 2.00	8	0.250
KfW AUD Green Bond (re-opening)	AUD 0.20	3	2.400
KfW USD Green Bond (1)	USD 0.15	3	1.660
KfW USD Green Bond (1)	USD 0.20	3	1.790
KfW USD Green Bond (2)	USD 1.00	5	2.000
KfW AUD Green Bond (re-opening)	AUD 0.20	3	2.400

(1) Under the US medium-term note program.
(2) Issued as global notes.

The most important sources of capital-market funding for KfW are bond and note issues followed by promissory note loans. At year-end 2017, the amount of outstanding bonds and notes issued by KfW totaled EUR 366.1 billion, representing a EUR 9.4 billion decrease from EUR 375.5 billion outstanding at year-end 2016.

Of outstanding borrowings, promissory note loans continue to be KfW's second most important capital-market funding instrument, with EUR 7.1 billion outstanding at year-end 2017. Of this amount, EUR 1.9 billion was included on KfW's consolidated statement of financial position in liabilities to banks and EUR 5.2 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

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	16	FIXED	4.54	2009-2017	2019-2028	3.60	21,641,010,000.00	14,102,052,652.17
AUD	1	FLOATING	2.03	2014	2019	1.12	200,000,000.00	130,327,121.07
BRL	7	FIXED	10.17	2010-2016	2019-2021	1.76	605,070,000.00	15,299,327.95
CAD	6	FIXED	2.78	2005-2015	2019-2037	4.47	3,977,200,000.00	2,644,590,730.76
CHF	5	FIXED	2.44	2005-2010	2019-2037	7.76	1,785,000,000.00	1,525,380,276.87
CNY	5	FIXED	3.90	2016-2017	2019-2020	1.75	1,218,000,000.00	156,065,809.04
DEM	1	FIXED	7.00	1993	2023	5.25	105,985,000.00	54,189,270.03
EUR	274	FIXED	1.38	1999-2017	2019-2047	5.66	152,016,432,425.12	152,016,432,425.12
EUR	49	FLOATING	0.61	1999-2017	2019-2052	3.55	5,059,173,270.87	5,059,173,270.87
GBP	19	FIXED	2.93	2000-2017	2019-2037	5.47	17,176,703,000.00	19,359,921,328.20
GBP	1	FLOATING	0.31	1999	2019	1.46	38,000,000.00	42,829,931.36
HKD	2	FIXED	1.03	2016	2019	1.78	3,875,000,000.00	413,465,642.34
JPY	19	FIXED	2.19	1999-2017	2019-2038	9.25	206,105,000,000.00	1,526,590,622.91
JPY	274	FLOATING	1.85	1999-2017	2019-2046	14.81	196,372,000,000.00	1,454,499,667.17
MXN	2	FIXED	6.17	2016-2017	2019-2023	3.24	3,000,000,000.00	126,789,850.05
NOK	17	FIXED	3.61	2002-2017	2019-2036	4.85	16,900,000,000.00	1,717,427,314.20
NOK	2	FLOATING	2.10	2016	2019	1.52	4,250,000,000.00	431,897,401.50
NZD	4	FIXED	3.82	2014-2016	2019-2021	2.47	1,600,000,000.00	949,554,896.14
PLN	1	FIXED	4.50	2006	2025	7.11	81,142,652.30	19,426,059.92
SEK	9	FIXED	3.43	2006-2017	2019-2031	4.04	19,500,000,000.00	1,980,942,319.02
SEK	1	FLOATING	0.00	2010	2020	2.63	1,000,000,000.00	101,586,785.59
TRY	5	FIXED	9.50	2014-2016	2019-2021	2.11	831,670,000.00	182,929,350.69
USD	77	FIXED	2.17	2002-2017	2019-2047	4.15	112,861,078,601.15	94,105,793,880.65
USD	6	FLOATING	1.72	2007-2016	2019-2023	3.95	210,833,332.05	175,796,991.61
ZAR	3	FIXED	7.52	2014-2017	2019-2022	2.18	1,500,000,000.00	101,314,385.29
Total	**806**					**5.05**		**298,531,277,310.52**

outstanding totaled EUR 40.2 billion (year-end 2016: EUR 47.1 billion).

Public Funds. The proportion of public funds in the group's borrowings was 1% at the end of 2017. 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 3.5 billion as of December 31, 2017 (December 31, 2016: EUR 3.2 billion). The group's long-term and short-term borrowings from the ERP Special Fund amounted to EUR 633 million as of December 31, 2017 (December 31, 2016: EUR 480 million). 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 countries and emerging economies. Federal budget funds constituted approximately 35% of the sources of funding for KfW Entwicklungsbank's commitments in 2017. Funds from the Federal Government involved in loan commitments and grants of KfW Entwicklungsbank do not, by their nature, appear on KfW's consolidated statement of financial position. For more information see "Promotion of Developing Countries and Emerging Economies—KfW Entwicklungsbank (KfW Development Bank)."

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, 2017		Fair value As of December 31, 2016	
	2017	2016	Positive	Negative	Positive	Negative
	(EUR in millions)		(EUR in millions)		(EUR in millions)	
Interest-related derivatives	423,508	412,338	8,149	7,263	13,692	17,277
Currency-related derivatives (1)	201,670	224,014	5,978	10,108	20,993	4,161
Credit derivatives as protection buyer	9	10	0	0	1	0
Miscellaneous	0	0	0	0	0	0
Total derivatives (2) (3)	**625,187**	**636,363**	**14,127**	**17,371**	**34,685**	**21,438**
Embedded derivatives accounted for separately	—	—	92	18	123	20
Total balance sheet items "derivatives designated for hedge accounting" and "other derivatives"	**625,187**	**636,363**	**14,219**	**17,389**	**34,808**	**21,458**

(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

Total positive fair value after netting (1)	**3,996**	**16,638**
Collateral received	3,139	15,481
of which cash collateral	*3,139*	*15,481*
Total positive fair value after netting and collaterals	**857**	**1,157**

(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 designated for hedge accounting" and "other derivatives." For additional information on KfW Group's derivatives exposure, see notes 10, 11, 12, 46, 47, 58, 59 and 74 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, 2017, KfW Group held financial assets in an amount of EUR 33.6 billion (year-end 2016: EUR 32.7 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 25.8 billion, or 77%, 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 Group's promotional business (e.g., KfW's 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 is denominated in euro. 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 ABS. 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 2017, KfW held securities in the aggregate amount of EUR 25.8 billion in its liquidity portfolio (year-end 2016: EUR 25.0 billion). For financial reporting purposes, securities denominated in U.S. dollar were converted into euro at the currency exchange rate as of December 31, 2017. In addition to these securities, as of December 31, 2017, KfW held money-market assets (overnight and term loans as well as reverse repurchase transactions) for liquidity management purposes in the amount of EUR 16.5 billion (year-end 2016: EUR 31.2 billion).

ABS and ABCP Portfolio. In 2017, KfW provided EUR 1,195 million (2016: EUR 975 million) as part of its promotional activities for financing SMEs by investing in securitized assets (e.g., SME lease and loan portfolios) as well as ABCP in order to enable SMEs to benefit from sustainable and stable refinancing. As of December 31, 2017, the overall ABS and ABCP portfolio volume amounted to EUR 2.5 billion (year-end 2016: EUR 2.4 billion).

Green Bond Portfolio. Under its green bond portfolio, KfW invests in green bonds of public sector issuers, supranational institutions and agencies, banks and corporations as well as in covered bonds and ABS. In 2017, KfW provided EUR 346 million (2016: EUR 299 million) as part of its promotional activities for financing climate and environmental protection measures by investing in green bonds. The portfolio was launched in 2015 and the targeted volume for the portfolio in the coming years was doubled from EUR 1.0 billion to EUR 2.0 billion in May 2017. At the end of 2017, the volume of KfW's green bond portfolio amounted to EUR 0.9 billion.

In the case of Deutsche Telekom, on May 31, 2017, the shareholders' meeting resolved to pay out a dividend of EUR 0.60 per share for 2016. As was also the case in recent years, 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 829.2 million ordinary registered shares compared to its total ownership interest of 819 million ordinary registered shares as of December 31, 2016. After distribution of the scrip dividend, KfW's stake in Deutsche Telekom amounted to approximately 17.4% as of July 4, 2017, which also represents the stake at year-end 2017 (December 31, 2016: 17.5%). To KfW's knowledge, the stake of the Federal Republic of Germany amounted to approximately 14.5% as of December 31, 2017.

At year-end 2017, KfW's total ownership interest in Deutsche Post remained unchanged compared to year-end 2016 with approximately 253.9 million ordinary shares. This represented a stake of approximately 20.7% in Deutsche Post (December 31, 2016: 20.5%). To KfW's knowledge, the Federal Republic does not hold any shares directly in Deutsche Post.

Given the agreement with the Federal Government described above, 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, 2017, 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 (100%), which is held directly by KfW, and KfW IPEX-Bank GmbH (100%), which is held indirectly via KfW Beteiligungsholding GmbH. The stakes in Finanzierungs- und Beratungsgesellschaft mbH (100%), tbg Technologie-Beteiligungs-Gesellschaft mbH (100%), Deutsche Energieagentur GmbH (26%) and Berliner Energieagentur GmbH (25%) are held directly by KfW.

Airbus SE

In 2007, KfW, together with 14 other investors, agreed to jointly acquire 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 the Federal Government 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.

KfW's investments in Airbus SE 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 SE.

CAPITALIZATION

CAPITALIZATION OF KFW GROUP AS OF DECEMBER 31, 2017

	(EUR in millions)
Borrowings	
Short-term funds	40,497
Bonds and other fixed-income securities	366,105
Other borrowings (1)	15,563
Total borrowings	422,164
Equity	
Paid-in subscribed capital (2)	3,300
Capital reserve (3)	8,447
Reserve from the ERP Special Fund	1,191
Retained earnings	15,500
Fund for general banking risks	600
Revaluation reserve	-295
Total equity	28,742
Total capitalization	**450,906**

(1) Includes long-term and short-term borrowings from the ERP Special Fund of EUR 633 million.

(2) KfW's equity capital, 80% of which is held by the Federal Republic and the remaining 20% by the *Länder*, amounted to EUR 3,750 million in 2016, of which EUR 3,300 million has been paid in pro rata by the Federal Republic and the *Länder*.

(3) Includes equity capital in form of promotional reserves (*Förderrücklage*) from the ERP Special Fund of EUR 7,150 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 December 2017, KfW's Chief Executive Officer, Dr Ulrich Schröder, duly resigned from office, with effect as of December 31, 2017. Dr Schröder's resignation was based on health reasons. Subsequently, KfW's

Dr Günther Bräunig

Age: 62

Dr Günther Bräunig became a member of KfW's Executive Board in October 2006. Dr Bräunig was appointed as Chief Executive Officer with effect as of January 1, 2018. Dr Bräunig's current tenure will end in June 2021. He is in charge of the General Secretariat, Internal Auditing, and Group Development and Economics, as well as Financial Markets, Human Resources, and Legal Affairs.

Dr Bräunig joined KfW Group in September 1989 to head the International Capital Markets 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. In September 2017, he was named Deputy CEO 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 board of pbb Deutsche Pfandbriefbank AG, Munich, Germany. In addition, he is a member of the supervisory boards of Deutsche Post AG, Bonn, Germany and of Deutsche Telekom AG, Bonn, Germany.

Dr Ingrid Hengster

Age: 57

Dr Ingrid Hengster became a member of KfW's Executive Board in April 2014. She is responsible for Domestic Promotional Business, Sales, New Business Credit Service, Digital Development and Central Services. In June 2017, KfW's Board of Supervisory Directors extended Dr Hengster's tenure until March 31, 2023.

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, Frankfurt am Main, Germany, 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 a member of the supervisory boards of ThyssenKrupp AG, Essen, Germany, and Deutsche Bahn AG, Berlin, Germany.

at an auditing firm where he also successfully completed the tax consultant exam. Subsequently, Mr. Loewen joined the Corporate Development department at COMMERZBANK Aktiengesellschaft, Frankfurt am Main, Germany, before moving on to Equity Derivatives Trading. From 2002 onwards, Bernd Loewen worked as Co-Managing Director at Commerz Capital Markets Corporation, a subsidiary of COMMERZBANK Aktiengesellschaft, in New York, USA. In 2005, he was appointed Member of the Management Board of mBank (formerly BRE Bank SA), a Polish subsidiary of COMMERZBANK Aktiengesellschaft, which involved relocating from New York to Warsaw, Poland.

Mr. Loewen is a member of the supervisory boards of The Currency Exchange Fund (TCX), Amsterdam, Netherlands and of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, Germany .

Prof Dr Joachim Nagel

Age: 51

Prof Dr Joachim Nagel became a member of KfW's Executive Board in November 2017. He is in charge of Promotion of developing countries and emerging economies (KfW Entwicklungsbank and DEG) and Export and project finance (KfW IPEX-BANK). Prof Nagel joined KfW as General Manager already on November 1, 2016. Previously, he had been a member of the Executive Board of Deutsche Bundesbank, the German central bank, in Frankfurt, Germany, since 2010. The current tenure of Prof Dr Nagel will end in 2020.

Prof Dr Nagel holds both a Master degree and a PhD in Economics from the University of Karlsruhe. He started his career in the banking sector started in 1999 at Deutsche Bundesbank, where he served as Head of the President's Office at the former Land Central Bank of Bremen, Lower Saxony and Saxony-Anhalt until 2003. Afterwards, he was appointed Head of the Market Analysis and Reporting Section in 2003, Head of the Market Analysis and Portfolios Division in 2004 and Head of the Markets Department at Deutsche Bundesbank in 2008.

Prof Dr Nagel serves as chairman of the supervisory board of KfW IPEX-Bank, Frankfurt am Main, Germany. In addition, he is a member of the supervisory board of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, Germany.

Dr Stefan Peiß

Age: 48

Dr Stefan Peiß became a member of KfW's Executive Board in January 2016. He is in charge of Credit Risk Management, Risk Controlling, Transaction Management, Portfolio Credit Service and Compliance, and acts as Chief Risk Officer of KfW. The current tenure of Dr Peiß will end in 2019.

Dr Peiß studied business administration at the Ludwig-Maximilians-Universität in Munich, Germany, where he also obtained a doctorate in political science (Dr oec. publ.) from the university's Institute for Risk Management and Insurance. In 1995, he started his career in the Real Estate Department of Bayerische Landesbank, Germany. He then transferred to the Risk Management Department, where he held management positions as Head of Team (client portfolio and strategic controlling) and Head of Department (portfolio controlling and controlling systematics, risk controlling trading activities). In 2007, Dr Peiß became Head of the Risk Operations Division, and in 2008, he was promoted to Head of Group Risk Control Division. Dr Peiß joined KfW in 2009 as Senior Vice President and Head of Risk Management and Controlling.

for the Environment, Nature Conservation 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 2017. 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, loans to members of management bodies (*Organkredite*), 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.

KfW's Board of Supervisory Directors' committee structure 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*). 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 as 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.

Robert Feiger	Chairman of the IG Bauen-Agrar-Umwelt (construction, agriculture and environment); representative of the trade unions
Klaus-Peter Flosbach	Appointed by the Bundestag
Christian Görke	Minister of Finance and Deputy Minister President of the State of Brandenburg; appointed by the Bundesrat
Dr Louis Hagen	President of the Association of German Pfandbrief Banks (vdp); representative of the mortgage banks
Dr Matthias Haß	Minister of Finance of the State of Saxony; appointed by the Bundesrat
Monika Heinold	Minister of Finance of the State of Schleswig-Holstein; appointed by the Bundesrat
Reinhold Hilbers	Minister of Finance of the State of Lower Saxony; appointed by the Bundesrat
Reiner Hoffmann	Chairman of the Deutscher Gewerkschaftsbund; representative of the trade unions
Gerhard Hofmann	Member of the Board of Managing Directors of Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e.V. (BVR); representative of the cooperative banks
Dr Bruno Hollnagel	Member of Parliament; appointed by the Bundestag
Andreas Ibel	President of the Bundesverband Freier Immobilien- und Wohnungsunternehmen; representative of the housing sector
Bartholomäus Kalb	Appointed by the Bundestag
Julia Klöckner	Federal Minister of Food and Agriculture
Stefan Körzell	Member of the Federal Executive Committee of Deutscher Gewerkschaftsbund (DGB); representative of the trade unions
Dr Joachim Lang	Executive Director of the Bundesverband der Deutschen Industrie e.V. (BDI); representative of the industry
Lutz Lienenkämper	Minister of Finance of the State of North Rhine-Westphalia; appointed by the Bundesrat
Heiko Maas	Federal Minister for Foreign Affairs
Dr Gerd Müller	Federal Minister for Economic Cooperation and Development
Dr. Hans-Walter Peters	President of the Bundesverband Deutscher Banken e.V. (BdB); representative of the commercial banks
Eckhardt Rehberg	Member of Parliament; appointed by the Bundestag
Dr Johannes-Jörg Riegler	President of the Bundesverband Öffentlicher Banken Deutschlands e.V. (VÖB); representative of credit institutions prominent in the field of industrial credit
Joachim Rukwied	President of the Deutscher Bauernverband e.V. (DBV); representative of the agricultural sector
Andreas Scheuer	Federal Minister of Transport and Digital Infrastructure
Helmut Schleweis	President of the Deutscher Sparkassen- und Giroverband (DSGV); representative of the savings banks
Carsten Schneider	Member of Parliament; appointed by the Bundestag
Olaf Scholz	Federal Minister of Finance; Deputy Chairman in 2018
Svenja Schulze	Federal Minister for the Environment, Nature Conservation and Nuclear Safety
Holger Schwannecke	Secretary General of the Zentralverband des Deutschen Handwerks (ZDH); representative of the skilled crafts sector
Edith Sitzmann	Minister of Finance and Economic Affairs of the State of Baden-Württemberg; appointed by the Bundesrat
Dr Florian Toncar	Member of Parliament; appointed by the Bundestag

including temporary personnel) (2016: 5,944 persons). Approximately 30% 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 21% is engaged in KfW's domestic business activities, 23% in promotion of developing and transition countries, 11% 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 81 to the financial statements included in Exhibit (e) to this annual report.

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 increased to at least 82.8 million at the end of 2017 compared to 82.5 million people at the end of 2016. The projected increase is again due to Germany's expected immigration surplus, which is thought to have more than offset the birth deficit (*i.e.*, the negative difference between births and deaths). Based on provisional results, the Federal Statistical Office estimates that net immigration of foreigners amounted to 450,000 persons in 2017, considerably below the record high of 2015. In 2015, approximately 16.6% 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 2017, Tables 1.2, 2.1.9 (https://www.destatis.de/DE/Publikationen/StatistischesJahrbuch/StatistischesJahrbuch2017.pdf?__blob=publicationFile); Statistisches Bundesamt,Germany's population stood at 82.5 million at the end of 2016, press release of January 16, 2018 (https://www.destatis.de/EN/PressServices/Press/pr/2018/01/PE18_019_12411.html; German version: https://www.destatis.de/DE/PresseService/Presse/Pressemitteilungen/2018/01/PD18_019_12411.html).

Under 20	18.4	18.3	18.2	18.2	18.3
20-40	24.5	24.5	24.1	24.0	23.9
40-60	29.4	29.8	30.3	30.7	30.9
60-80	21.6	21.6	21.8	21.8	21.6
80 and more	6.0	5.8	5.6	5.4	5.4
Growth rate			(percent change on the previous year)		
Total population	0.4	1.2	0.5	0.3	0.2
Under 20	1.0	2.2	0.5	-0.3	-0.5
20-40	0.6	2.6	1.1	0.9	0.4
40-60	-0.9	-0.4	-0.6	-0.5	-0.3
60-80	0.4	0.4	0.7	1.2	1.2
80 and more	4.5	4.1	4.1	0.9	1.3

(1) The development of the population in the reporting year 2016 is only comparable to the previous year's figures to a limited extent due to methodological changes in the underlying population flow statistics. Limitations in the accuracy of the results may be due to increased immigration and the resulting problems in connection with the registration of persons seeking protection as required by German reporting laws.

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).

Notwithstanding the 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. According to estimates of the Federal Statistical Office, higher net immigration is expected to have only limited effects on long-term population trends and cannot reverse the trend towards increased population aging.

Sources: 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); Statistisches Bundesamt, Currently high immigration cannot reverse population ageing, press release of January 20, 2016 (https://www.destatis.de/EN/PressServices/Press/pr/2016/01/PE16_021_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 24, 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, awarded to the candidate with the most votes in a given electoral district, in a general election. The Chancellor is elected by and is responsible to the Bundestag.

Social Democratic Party (SPD). On March 14, 2018, the Bundestag re-elected Dr. Angela Merkel (CDU) Chancellor for the fourth time. Dr. Merkel has been serving as Chancellor since 2005.

Sources: The Federal Returning Officer, Official final result of the 2017 Bundestag Election, press release of October 12, 2018 (https://www.bundeswahlleiter.de/en/info/presse/mitteilungen/bundestagswahl-2017/34_17_endgueltiges_ergebnis.html); Koalitionsvertrag zwischen CDU, CSU und SPD Ein neuer Aufbruch für Europa. Eine neue Dynamik für Deutschland. Ein neuer Zusammenhalt für unser Land, March 12, 2018 (https://www.bundeskanzlerin.de/Content/DE/_Anlagen/2018/03/2018-03-14-koalitionsvertrag.pdf?__blob=publicationFile&v=1). The Federal Chancellor, Angela Merkel re-elected Chancellor, news of March 14, 2018 (https://www.bundeskanzlerin.de/Content/EN/Artikel/2018/03_en/2018-03-14-wahl-im-bundestag_en.html).

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

ELECTION RESULTS TO THE GERMAN BUNDESTAG

	2017 Elections		2013 Elections		2009 Elections		2005 Elections		2002 Elections	
	% of Votes	Seats	% of Votes	Seats	% of Votes	Seats	% of Votes	Seats	% of Votes	Seats
CDU/CSU	33.0	246	41.5	311	33.8	239	35.2	226	38.5	248
SPD	20.5	153	25.7	193	23.0	146	34.2	222	38.5	251
AfD	12.6	94	4.7	—	—	—	—	—	—	—
FDP	10.7	80	4.8	—	14.6	93	9.8	61	7.4	47
Die Linke. (1)	9.2	69	8.6	64	11.9	76	8.7	54	4.0	2
Bündnis 90/Die Grünen	8.9	67	8.4	63	10.7	68	8.1	51	8.6	55
Others	5.0	—	6.2	—	6.0	—	3.9	—	3.0	—
Total		**709**		**631**		**622**		**614**		**603**

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

Sources: Der Bundeswahlleiter 2018 (https://www.bundeswahlleiter.de/bundestagswahlen/2017/ergebnisse/bund-99.html), Statistisches Bundesamt, Statistisches Jahrbuch 2016, Tables 10.1.1 and 10.1.2; Statistisches Bundesamt, Statistisches Jahrbuch 2011, Tables 4.3.1, 4.3.2 and 4.6.

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. Furthermore, the Federal Republic is a signatory to the General Agreement on Tariffs and Trade and a member of the World Trade Organization ("WTO"). It is also a shareholder of, among others, the European Investment Bank, the European Bank for Reconstruction and Development, the Asian Infrastructure Investment Bank and the European Atomic Energy Community.

granted candidate status. Bosnia and Herzegovina and Kosovo are potential candidates. See "Political Integration" below for more information on the UK's decision to withdraw from the EU.

Sources: European Union, The history of the European Union (http://europa.eu/about-eu/eu-history/index_en.htm); European Union, The history of the European Union: 2000-2009 (http://europa.eu/about-eu/eu-history/2000-2009/index_en.htm); European Union, The history of the European Union: 2010-today (http://europa.eu/european-union/about-eu/history/2010-today_en); 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); European Commission, Enlargement, Countries, Check current status (http://ec.europa.eu/enlargement/countries/check-current-status/index_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). After several years of negotiations about institutional issues among the Member States in an intergovernmental conference, in which the European Commission and the Parliament were also involved, the Treaty of Lisbon entered into force on December 1, 2009. It amends and supplements the existing treaties underlying the EU and aims to provide the EU with the legal framework and tools necessary to meet future challenges and to respond to citizens' demands. Among other matters, the treaty aims to make the EU more democratic and transparent by strengthening the role of the European Parliament and national parliaments, by offering more opportunities to citizens to provide input for policy proposals, by clearly categorizing competences between Member States and the EU and by explicitly recognizing the possibility for a Member State to withdraw from the EU. To reflect the EU's enlargement and improve the effectiveness and efficiency of its decision-making, the treaty also streamlined and modernized EU institutions and simplified their working methods and voting rules.

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, EU treaties: Treaty of Lisbon (http://europa.eu/european-union/law/treaties_en).

On June 23, 2016, the citizens of the UK voted to leave the EU, and on March 29, 2017, the UK notified the European Council accordingly. The EU treaties cease to apply to a withdrawing Member State from the date of entry into force of the agreement setting out the arrangements for the Member State's withdrawal, or within two years of the notification of the withdrawal. On March 23, 2018, the European Council, meeting in an EU27 format, adopted the guidelines on the framework for a future relationship of the EU with the UK after the UK's withdrawal from the EU. The EU intends to maintain the closest possible partnership with the UK, which would cover trade and economic cooperation, security and defense, among other areas. Previously, the negotiators from the EU and the UK had reached an agreement regarding parts of the legal text of the withdrawal agreement covering citizens' rights, the financial settlement, a number of other withdrawal issues and the transition period. If the final withdrawal agreement is not completed by March 29, 2019, *i.e.*within two years after the UK's notification of the withdrawal, the European Council may unanimously decide to extend the period for negotiations.

Sources: UK Government, Topic, EU referendum (https://www.gov.uk/government/topical-events/eu-referendum); Council of the EU, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, Article 50, page 59-60 (http://data.consilium.europa.eu/doc/document/ST-6655-2008-REV-8/en/pdf); European Commission, Statement by the European Council (Art. 50) on the UK notification, press release, March 29, 2017 (http://www.consilium.europa.eu/en/press/press-releases/2017/03/29-euco-50-statement-uk-notification/); Council of the EU, Brexit, last reviewed on March 26, 2018 (http://www.consilium.europa.eu/en/policies/eu-uk-after-referendum/).

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 2018 EU budget, which was adopted by the European Parliament in November 2017 and published in February 2018, amounts to EUR 160.1 billion in commitment appropriations and EUR 144.7 billion in payment appropriations. The entire EU budget represents approximately 1% of the EU gross national income.

The EU is responsible for trade matters with non-EU Member States. In the area of trade in goods, the EU even has exclusive power. Furthermore, the EU's responsibilities also cover trade in services, the commercial aspects of intellectual property (such as patents), public procurement and foreign direct investment. In particular, the EU is responsible for negotiating and concluding international trade agreements as well as identifying trade barriers and unfair trade practices by trading partners and adopting appropriate countermeasures. Trade agreements are negotiated by the European Commission upon authorization of the Council. Once the European Commission completes negotiations, the Council and the European Parliament examine the final negotiated agreement and decide upon its approval. Trade agreements regulating areas of mixed responsibility between the EU and its Member States can only be fully concluded after ratification by all EU Member States.

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 Banking Authority, Topics, Passporting and supervision of branches (http://www.eba.europa.eu/regulation-and-policy/passporting-and-supervision-of-branches); 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, Library, Documents: Annual Budget, 2018 (http://ec.europa.eu/budget/biblio/documents/2018/2018_en.cfm); EUR-Lex, Budget 2018, General budget, Total revenue (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2018:057:FULL&from=EN); European Commission, Business, Economy, Euro, Trade with non-EU countries, EU trade policy-making (http://ec.europa.eu/trade/policy/policy-making); Federal Ministry for Economic Affairs and Energy, Topics, Trade Policy, European Trade Policy (http://www.bmwi.de/Redaktion/EN/Dossier/trade-policy.html).

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 ("Euro Area Member States"), assumed sole responsibility for the monetary policy in the euro area on January 1, 1999.

Sources: Council of the EU, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union (http://data.consilium.europa.eu/doc/document/ST-6655-2008-REV-8/en/pdf); 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).

of one-off and temporary measures. The corrective arm of the SGP consists of the excessive deficit procedure ("EDP"). The EDP ensures the correction of excessive budget deficits (defined as a deficit in excess of 3% of gross domestic product ("GDP")) or excessive public debt levels (defined as a debt ratio greater than 60% of GDP without an adequate diminishing trend). Countries that fail to respect the SGP's preventive or corrective rules may ultimately face sanctions. For Euro Area Member States, these could take the form of warnings and financial sanctions including fines of up to 0.2% of GDP (if they fail to abide by either the preventive or the corrective rules). In addition, all Member States (except the United Kingdom) could face a suspension of commitments or payments from the EU's structural and investment funds if they fail to abide by the corrective rules. Every April, Member States are required to lay out their fiscal plans for the next three years based on economic governance rules set forth in the SGP. In addition, to ensure the coordination of fiscal policies among Euro Area Member States, governments are required by European economic governance rules to submit their draft budgetary plans for the following year to the European Commission by October 15 of each year.

Sources: European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU economic governance (http://ec.europa.eu/economy_finance /economic_governance/index_en.htm); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU economic governance, Stability and Growth Pact (http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU economic governance, Stability and Growth Pact, Stability and convergence programmes (https://ec.europa. eu/ info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/stability-and-convergence- programmes_en); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU economic governance, Stability and Growth Pact, Annual draft budgetary plans (DBPs) of euro area countries (https://ec.europa.eu/info/ business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries_en).

Macroeconomic Imbalance Procedure. Established in 2011, the macroeconomic imbalance procedure ("MIP") is a surveillance mechanism that aims to identify potential economic risks early on, prevent the emergence of harmful macroeconomic imbalances and correct any existing excessive imbalances. The preventive arm of the procedure 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 make preventive recommendations to the affected Member State at an early stage. In cases of a Member State with excessive macroeconomic imbalances, the corrective arm may open an excessive imbalance procedure, under which the Member State concerned will have to submit a corrective action plan and regular progress reports. The enforcement regime of the MIP consists of financial sanctions against Euro Area Member States, including fines of up to 0.1% of GDP if a Euro Area Member State repeatedly does not comply with its obligations. In the most recent surveillance cycle, twelve Member States, including Germany, were subject to an in-depth review in the context of the MIP. Of these, eleven were found to be experiencing macroeconomic imbalances of various natures and magnitudes. According to the Commission's assessment, Germany is experiencing macroeconomic imbalances, but these are not excessive. See "The Economy—International Economic Relations—Germany's Current Account Surplus and the Macroeconomic Imbalance Procedure."

Sources: European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU economic governance, Macroeconomic imbalance procedure (http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/index_en.htm); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU economic governance, Macroeconomic imbalance procedure, MIP surveillance in 2018 (https: //ec.europa.eu/info /business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic- governance-monitoring-prevention-correction/macroeconomic-imbalance-procedure /mip-surveillance-2018_en); European Commission, European Semester, Country Report Communication (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-communication_en.pdf).

Treaty on Stability, Coordination and Governance in the EMU. The Treaty on Stability, Coordination and Governance in the EMU ("TSCG"), which was signed in March 2012 and entered into force on January 1, 2013, is intended to promote budgetary discipline in the participating Member States through a fiscal pact. The fiscal pact's provisions are binding for Euro Area Member States, while the other participating 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 TSCG was signed by all Member States, except the UK, the Czech Republic and Croatia. The TSCG requires the participating parties to ensure convergence towards the country-specific, medium-term budgetary objectives as defined in the SGP, with a lower limit of a structural deficit of 0.5% of GDP (or of 1% of GDP, if their debt-to-GDP ratio is well below 60%). In the event of a deviation from this requirement, an automatic correction mechanism will be triggered with escape clauses for exceptional circumstances. These budget rules were 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.

the EU under an implicit EU budget guarantee. For more information on the ESM, see "—European Stability Mechanism" below. The EFSF, which was created as a temporary institution and since July 1, 2013 no longer engages in new financing programs, had a lending capacity of EUR 440 billion backed by effective guarantees extended by the Euro Area Member States totaling EUR 724 billion. 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, which amounts to approximately 29% of the total effective guarantees. 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. As of March 2018, the EFSF had outstanding loans to Ireland, Portugal and Greece of approximately EUR 175 billion.

Sources: European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU financial assistance, Loan programmes (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/loan-programmes_en); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU financial assistance, How is financial assistance given to EU countries? (http://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/how-financial-assistance-given-eu-countries_en); European Stability Mechanism, Frequently Asked Questions on the ESM (https://www.esm.europa.eu/sites/default/files/faqontheesm.pdf); European Financial Stability Facility, Publications, Investor Presentation (https://www.esm.europa.eu/sites/default/files/efsfesmnewinvestorpresentationmarch2018.pdf).

European Stability Mechanism. Since October 2012, the ESM, which was established as an intergovernmental organization under public international law by the Euro Area Member States, has been assisting in preserving the financial stability of the EMU. As of July 1, 2013, it assumed the tasks fulfilled by the EFSF and the EFSM and is currently the primary support mechanism for 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 ESM issues bonds or other debt instruments on the financial markets to raise capital to provide assistance to Euro Area Member States. Unlike the EFSF, which is based upon guarantees by Euro Area Member States, the ESM has total subscribed capital of EUR 705 billion provided by Euro Area Member States, which provides it with a lending capacity of EUR 500 billion. EUR 81 billion of the ESM's subscribed capital is in the form of paid-in capital with the balance of EUR 624 billion being callable capital. 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 contributed approximately EUR 22 billion of paid-in capital to the ESM.

Financial assistance from the ESM is activated upon a request from a Member State to the chairperson of the ESM's board of governors and is provided subject to conditions appropriate to the instrument chosen. The initial instruments available to the ESM have been modeled upon those available to the EFSF and include the extension of loans to a Euro Area Member State in financial difficulties, interventions in the primary and secondary debt markets, action based on a precautionary program, and the extension of loans to governments, or since December 2014 directly to affected financial institutions, for the purposes of recapitalizing financial institutions. Each instrument is to be linked to a memorandum of understanding which sets forth the conditions for financial support that the Member State has negotiated with the European Commission in liaison with the ECB, as well as the monitoring and surveillance procedures established to ensure the Member State is progressing towards financial stability. In principle, decisions under the ESM are taken by mutual agreement. However, 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 April 2018, the ESM had loans outstanding to Spain, Cyprus and Greece of approximately EUR 80 billion.

Sources: European Stability Mechanism, History (https://www.esm.europa.eu/about-us/history); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU financial assistance, How is financial assistance given to EU countries? (http://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/how-financial-assistance-given-eu-countries_en); European Commission, Business, Economy, Euro, Economic and fiscal policy coordination, EU financial assistance, Loan programmes, ESM (http://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/loan-programmes/european-stability-mechanism-esm_en); European Stability Mechanism, Financial Assistance, Lending toolkit (https://www.esm.europa.eu/assistance/lending-toolkit); European Stability Mechanism, Frequently Asked Questions on the ESM (https://www.esm.europa.eu/sites/default/files/faqontheesm.pdf); European Stability Mechanism, Publications, Investor Presentation April 2018 (https://www.esm.europa.eu/sites/default/files/efsfesmnewinvestorpresentationapril2018.pdf).

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 were provided by Euro Area Member States and EUR 20 billion by the IMF.

Under the second economic adjustment program, which was approved by the Euro Area Member States in March 2012, the EFSF and the IMF committed the undisbursed amounts of the first program plus an additional EUR 130 billion in financial assistance for the years 2012 to 2014. Disbursements of financial assistance under the program were conditioned upon the observance of certain quantitative performance criteria and a positive evaluation of progress made on policy criteria. Following an extension by four months, the second program expired at the end of June 2015. The outstanding EFSF loan to Greece under the second program amounts to approximately EUR 130.9 billion.

In July 2015, the Greek government submitted a request to the ESM's board of governors for further stability support. Following approval by the ESM's board of governors, the European Commission signed a memorandum of understanding with Greece for a third economic adjustment program. Under this program, the ESM is able to disburse up to EUR 86 billion in financial assistance to Greece over a three-year period ending in August 2018. Disbursements are contingent upon the Greek government's progress in delivering on certain policy conditions set forth in the memorandum of understanding which aim to enable the Greek economy to return to a sustainable growth path based on sound public finances, enhanced competitiveness, high employment and financial stability. As of the end of March 2018, the total disbursements of ESM financial assistance to Greece amounted to approximately EUR 45.9 billion. The outstanding ESM loan as of the end of March 2018 amounted to EUR 43.9 billion following a repayment in February 2017. After the end of the program in August 2018, the Greek government is not expected to request a precautionary credit line from the ESM. Greece will then become subject to post-program surveillance by the EU.

Sources: European Commission, Policies, Information and Services, Financial assistance to Greece (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-greece_en); European Stability Mechanism, Financial Assistance, Greece (ongoing) (https://www.esm.europa.eu/assistance/greece); European Stability Mechanism, Greece: after the third programme, speech by Klaus Regling of March 4, 2018 (https://www.esm.europa.eu/speeches-and-presentations/%E2%80%9Cgreece-after-third-programme%E2%80%9D-speech-klaus-regling).

Ireland. The first Euro Area Member State to receive support by the EFSM and EFSF was Ireland. The financial assistance, agreed upon in December 2010 and provided subject to compliance with an economic adjustment program, consisted of financial support in a total amount of EUR 85 billion, including EUR 22.5 billion financed through the EFSM, EUR 17.7 billion through the EFSF and EUR 22.5 billion through the IMF. The financial assistance program for Ireland expired as planned in December 2013. Ireland remains subject to post-program surveillance until at least 75% of EU's financial assistance received has been repaid; this is not expected to occur until 2031. Ireland has already repaid the loans financed through the IMF in full.

Sources: European Commission, Policies, Information and Services, Financial Assistance in EU Member States, Ireland (http://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-ireland_en); European Financial Stability Facility, EFSF financial assistance for Ireland ends with successful Irish exit, press release of December 8, 2013 (https://www.esm.europa.eu/press-releases/efsf-financial-assistance-ireland-ends-successful-irish-exit); International Monetary Fund, Ireland: Transactions with the Fund from May 01, 1984 to March 31, 2018 (http://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=470&endDate=2099%2D12%2D31&finposition_flag=YES).

Portugal. Following the Portuguese Republic's application for support in early April 2011, euro area, EU and IMF financial assistance was provided for the 2011 to mid-2014 period on the basis of an economic adjustment program agreed 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. The Portuguese government decided to exit its macroeconomic adjustment program without successor arrangement in June 2014. Portugal remains subject to post-program surveillance until at least 75% of the financial assistance received has been repaid; this is not expected to occur until 2026. As of the end of March 2018, Portugal had already repaid SDR 19.1 billion of loans to the IMF.

Sources: European Commission, Policies, Information and Services, Financial Assistance in EU Member States, Portugal (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-portugal_en); International Monetary Fund, Portugal: Transactions with the Fund from May 01, 1984 to March 31, 2018 (http://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=810&endDate=2099%2D12%2D31&finposition_flag=YES).

Sources: European Commission, Policies, Information and Services, Financial Assistance in EU Member States, Spain (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-spain_en); ESM, Financial Assistance, Spain (https://www.esm.europa.eu/assistance/spain); European Stability Mechanism, Spain successfully exits ESM financial assistance programme, press release of December 31, 2013 (https://www.esm.europa.eu/press-releases/spain-successfully-exits-esm-financial-assistance-programme).

Cyprus. The economic adjustment program for Cyprus was formally agreed in May 2013. The financial package was designed to cover financing needs of up to EUR 10 billion, with the ESM providing up to EUR 9 billion and the IMF contributing around EUR 1 billion. The program addressed Cyprus's financial sector imbalances including an appropriate downsizing of the country's financial sector, fiscal consolidation, structural reforms and privatization. The financial assistance program expired in March 2016 as planned. Approximately EUR 2.7 billion of the ESM financing package remained unutilized. Cyprus remains subject to post-program surveillance until at least 75% of the financial assistance received has been repaid, which is not expected before 2029.

Sources: European Commission, Policies, Information and Services, Financial Assistance in EU Member States, Cyprus (https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-cyprus_en); ESM, Financial Assistance, Cyprus (https://www.esm.europa.eu/assistance/cyprus); Eurogroup, Eurogroup Statement on Cyprus, press release of March 7, 2016 (http://www.consilium.europa.eu/de/press/press-releases/2016/03/07-eurogroup-statement-cyprus/).

Response to Migratory Pressure

EU Migration Policy. The growing instability in the EU's southern neighboring countries has increased the number of people trying to reach the EU. The EU and the Member States have been intensifying efforts to establish an effective, humanitarian and safe European migration policy. In the Federal Government's opinion, because a solution cannot be found by individual Member States alone but only by all Member States together, solving the problem requires a comprehensive approach covering all relevant areas. The EU policy response comprises the following activities: working with countries of origin and transit, strengthening the EU's external borders, managing migration flows and curbing migrant smuggling activities, reforming the common European asylum system and providing legal migration pathways, as well as fostering the integration of third-country nationals. According to Frontex, the European Border and Coast Guard Agency, the total number of detected illegal border crossings in 2017 decreased for the second year in a row. The detections fell to 205,000, representing a decline by 60% compared to 2016 and by 89% compared to 2015, when the migratory crisis culminated.

Sources: European Council, Finding solutions to migratory pressures (http://www.consilium.europa.eu/en/policies/migratory-pressures/); Frontex, Publication, Risk Analysis for 2018 (https://frontex.europa.eu/publications/risk-analysis-for-2018-aJ5nJu).

Reintroduction of Internal Border Controls. Effective management of the EU's external borders is fundamental for the well-functioning of free movement within the EU. Within the Schengen area, which encompasses most Member States, except Bulgaria, Croatia, Cyprus, Ireland, Romania and the UK, any person, irrespective of nationality, may cross internal borders without being subjected to border checks. In case of a serious threat to public policy or internal security, a Schengen country may exceptionally temporarily reintroduce border controls at its internal borders. In the context of the migrant crisis and terrorist threats, several Schengen countries, including Germany, have temporarily reintroduced internal border controls. In September 2017 the European Commission introduced a proposal to update the Schengen Borders Code to adapt the rules for the reintroduction of temporary internal border controls to the current needs. The Schengen Borders Code governs the crossing of the external borders of the Schengen Area.

Sources: European Commission, Migration and Home Affairs, Schengen Area (https://ec.europa.eu/home-affairs/what-we-do/policies/borders-and-visas/schengen_en); European Commission, Migration and Home Affairs, Temporary Reintroduction of Border Control (https://ec.europa.eu/home-affairs/what-we-do/policies/borders-and-visas/schengen/reintroduction-border-control_en); European Commission, State of the Union 2017 – Preserving and strengthening Schengen to improve security and safeguard Europe's freedoms, press release of September 27, 2017 (http://europa.eu/rapid/press-release_IP-17-3407_en.htm).

European Commission, Migration and Home Affairs, Common European Asylum System, Country responsible for asylum application (Dublin) (https://ec.europa.eu/home-affairs/what-we-do/policies/asylum/examination-of-applicants_en); Regulation (EU) No 604/2013 of the European Parliament and of the Council of June 26, 2013 (http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0604&from=EN); European Council, Reforming the common European asylum system (http://www.consilium.europa.eu/en/policies/migratory-pressures/ceas-reform/).

Statistical Standards

Statistical Standard for the National Accounts

Since August 2014, the Federal Statistical Office calculates the German national accounts in accordance with the 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 since 1991.

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.

Source: Bundesbank, Changes in the methodology and classifications of the balance of payments and the international investment position, Monthly Report, June 2014 (https://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 contributes to the identification of risks at an early stage. Although adherence by member countries to the SDDS Plus 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).

Key Economic Figures

The German economy is one of the world's largest economies. In 2017, the GDP of Germany expressed at current prices was EUR 3,263.4 billion, compared to EUR 3,144.1 billion in 2016, which represents an increase of 3.8%. GDP adjusted for price effects rose by 2.2% compared to 2016, and exceeded the 1991 level by 43.2%. 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 25.4% 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 2017, GDP per capita at current prices was EUR 39,454, while GDP per employee at current prices was EUR 73,680.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), 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 2017, services accounted for 68.7% of gross value added, measured at current prices, compared to 61.9% in 1991. The two most important subsectors were "trade, transport, accommodation and food services," accounting for 16.1% in 2017, compared to 16.2% in 1991, and "public services, education, health," accounting for 18.2% of gross value added in 2017, compared to 15.9% in 1991. The production sector (excluding construction) generated 25.7% of gross value added compared to 30.9% in 1991. Construction contributed 4.9% to gross value added in 2017, compared to 6.0% in 1991, and agriculture, forestry and fishing accounted for 0.7% of gross value added in 2017, compared to 1.2% in 1991.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 2.2.1.

In 2017, private final consumption expenditure totaled 53.2% of GDP in current prices, gross capital formation amounted to 19.7% and government final consumption expenditure equaled 19.6%. Exports and imports of goods and services accounted for 47.3% and 39.6% of GDP at current prices, respectively. The trade balance (according to national accounts) thus showed a surplus equal to 7.6% of GDP in 2017, which is slightly lower than in the previous year (2016: 8.0% of GDP).

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 2.3.1.

In 2017, price-adjusted GDP rose by 2.2% compared to 2016. The GDP adjusted for both price and calendar effects, increased by 2.5% compared to 2016. Net exports had a slightly positive effect on economic growth in 2017 on a price-adjusted basis (growth contribution: 0.2 percentage points). Exports increased by 4.7% (2016: 2.6%), while imports rose by 5.1% (2016: 3.9%), all on a price-adjusted basis. Gross fixed capital formation in machinery and equipment increased in 2017 by 4.0%, compared to a 2.2% increase in 2016, in price-adjusted terms, while gross fixed capital formation in construction increased by 2.7% in price-adjusted terms. Final consumption expenditure of general government rose by 1.6% in 2017 on a price-adjusted basis, and final consumption expenditure of households rose by 1.9% on a price-adjusted basis compared to 2016.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), 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 6.1% in 2016 to 5.7% in 2017. 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 3.9% in 2016 to 3.6% in 2017. 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") increased to 1.8% in 2017, compared to 0.5% in 2016. Excluding energy prices, the index rose by 1.6%. General government gross debt stood at EUR 2,092.6 billion at year-end 2017, compared to EUR 2,145.5 billion at year-end 2016.

Sources: Bundesagentur für Arbeit, Monatsbericht Februar 2018, Table 6.1 (https://statistik.arbeitsagentur.de/Statistikdaten/Detail/201802/arbeitsmarktberichte/monatsbericht-monatsbericht/monatsbericht-d-0-201802-pdf.pdf); Statistisches Bundesamt, Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 2.1.13; Statistisches Bundesamt, Fachserie 17, Reihe 7 (February 2018), 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).

effects	113.1	110.7	108.6	106.7	104.7
(change from previous year in %)	2.2	1.9	1.7	1.9	0.5
GDP - price-adjusted, chain-linked index (2010=100), adjusted for calendar effects	113.3	110.5	108.5	106.9	104.8
(change from previous year in %)	2.5	1.9	1.5	1.9	0.6
Unemployment rate (ILO definition) (in %) (1)	3.6	3.9	4.3	4.7	4.9
Rate of inflation (year-to-year change in consumer price index (CPI) in %)	1.8	0.5	0.3	0.9	1.5
Balance of payments - current account	262.6	268.8	271.4	219.0	190.1
General government gross debt (2)	2,092.6	2,145.5	2,161.8	2,192.0	2,190.5

(1) Unemployed persons, available and seeking work.

(2) Definition according to Maastricht Treaty.

Sources: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2017 (February 2018), 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 April 2018, 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 2018, the Federal Government projected that GDP in Germany will grow by 2.3% in 2018, with private consumption growing by 1.7% (all growth rates are expressed in price-adjusted terms). Exports and imports are expected to increase by 5.0% and 5.8%, respectively, on a price-adjusted basis compared to 2017. In price-adjusted terms, gross fixed capital formation in machinery and equipment is projected to increase by 5.5% and gross fixed capital formation in construction is forecast to increase by 2.6%. Growth is expected to be steady and broad based. The Federal Government expects that domestic employment will increase by approximately 575,000 persons or 1.3% in 2018 compared to 2017, reaching a record level of 44.9 million persons in 2018. Registered unemployment (*Arbeitslose*) is expected to decrease by 200,000 persons compared to 2017 to 2.33 million persons in 2018 on average.

Source: Bundesministerium für Wirtschaft und Energie, Frühjahrsprojektion der Bundesregierung: Altmaier: Der Aufschwung geht weiter!, press release of April 25, 2018 (https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2018/20180425-fruehjahrsprojektion-der-bundesregierung-altmaier-der-aufschwung-geht-weiter.html).

Economic Policy

General

The Federal Government continues the strategy of enhancing economic growth, while maintaining fiscal discipline. At the same time the aim is for the German economy to remain competitive and to strengthen its growth potential by way of increasing public investment and improving conditions for private investment, 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.

Current Policy Initiatives

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." In 2017, overall public sector finances were again positive, with net lending of general government at 1.1% of GDP. This means that the public sector achieved a surplus for the fourth year in succession. This trend is expected to continue in the years ahead. According to the government to comply with the requirements of the national "debt brake". The Federation will provide additional funding to the *Länder* from 2020 onwards, starting at approximately EUR 9.7 billion. This is expected to help the *Länder* to comply with the national "debt brake" and create room for additional public investment on the *Länder* and municipal levels. The new rules for revenue sharing, taking effect in 2020, will combine the current horizontal distribution of value added tax ("VAT") revenue (with supplementary shares for *Länder* with lower revenues) with the current fiscal equalisation between the *Länder*. From 2020 onwards, all fiscal equalisation will be achieved through deductions from and supplements to the VAT revenue shares of the *Länder*. In addition, the reform provides for:

- the creation of a federal infrastructure company for motorways and other federal highways, which will combine responsibilities of different levels of government. The aim is to reap the potential for efficiency gains in the planning, construction, maintenance, operation and financing of highways and thus to permit quicker and cheaper investment over the life cycle of highways;
- the introduction of a single joint IT platform for administrative services of the Federation and the *Länder*;
- the strengthening of the influence of the Federation on tax administration, in particular in the area of computer-based automation;
- the strengthening of the Stability Council (*Stabilitätsrat*), a joint body of the Federation and the *Länder*; and
- the introduction of inspection rights of the Federal Court of Auditors (*Bundesrechnungshof*) in the area of joint financing at the *Länder* level.

The Federal Government is focusing particularly on enhancing public sector investment. In total, federal fixed capital expenditure at current prices has risen by approximately 37% over the past legislative term (2013-2017), to EUR 34 billion in the 2017 federal budget (contributions to ESM excluded). Public investment focuses on transport infrastructure, support for broadband expansion, microelectronics, development of electromobility, support for energy efficiency measures for buildings, and the promotion of social housing. The Federal Government is also assisting the *Länder* and the municipalities by providing fiscal support, thus boosting the scope for municipalities and *Länder* to invest. For example, financially weak municipalities are projected to benefit from an additional EUR 7 billion provided by the Federal Government through the Municipal Investment Promotion Fund (*Kommunalinvestitionsförderungsfonds*).

The Federal Government regards digital infrastructure as a key strategic factor for the economy and aims to roll out comprehensive gigabit networks throughout Germany by 2025. Within the currently ongoing broadband program aiming at the nationwide availability of a minimum download speed of 50 Mbit/s, the Federal Government is providing EUR 4.4 billion for investments in the expansion of broadband networks, focusing especially on rural and remote areas. As part of its high-tech strategy, the Federal Government provides incentives for research and development, particularly in the priority fields of digital economy and society, sustainable economic activity and energy, innovative working environment, healthy living, intelligent mobility, and civil security.

The Federal Government has also improved the framework for private-sector investment, including by promoting venture capital and start-ups through various initiatives. To improve the general business environment, the Federal Government has cut red tape and has decreased compliance costs for companies. In addition, a reform of the public procurement laws and the enactment of a sub-threshold procurement regulation have improved the legal framework for public procurement.

The new Federal Government intends to ensure the German economy continues to grow in the coming years by continuing to improve conditions for growth in productivity, incomes, and employment. The government intends to achieve this by ensuring that private and public investments complement each other, by strengthening businesses' innovative capacity, and by further increasing efforts in the areas of skilled labor and qualifications. Because approximately 90% of investments in Germany are made by the private sector, the Federal Government aims to continue to improve conditions to boost investments by households and businesses.

The Federal Government continues to develop and adapt tax legislation to align it with the needs of a modern society in a globalized world. In line with the OECD action plan against base erosion and profit shifting by multinational companies, the assessment, the minimum wage was raised from EUR 8.50 to EUR 8.84 per hour worked. The next assessment is due on January 1, 2019. The Federal Government has taken measures within a comprehensive concept to increase the chances of long-term unemployed persons regaining access to the regular labor market. While recognizing that the use of temporary workers enables many people to participate in working life, the Federal Government has amended legislation to address illegal contract clauses with the aim of restricting 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. 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. Making family and working life more compatible not only contributes to equal opportunity, but also to activating additional skills for companies. Thus, the Federal Government has supported the *Länder* and local authorities with over EUR 6 billion during the past legislative term. The funds were invested in the expansion, operation and improvement of child day care, and in federal programs for language education. In order to provide greater support to working patterns that fit in with other aspects of life, the legal framework for a more flexible transition from working life to retirement was improved by the Variable Pension Act (*Flexirentengesetz*).

The number of refugees seeking protection in Germany has decreased from 890,000 in 2015 to about 173,000 in 2017 (January to November). Nevertheless, the integration of immigrants remains an important social and economic challenge. In 2017, the Federal Government took a number of new measures to promote the successful integration of immigrants into society and the labor market. Besides increasing the supply of high-quality language and integration courses, it has enacted regulations allowing for better monitoring of compliance of immigrants with such course measures.

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% to 95% 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 cost-efficient basis by providing for public compensation which is technology-specific. The other key projects for the past legislative term were consolidated in a ten-point Energy Agenda. The National Energy Efficiency Action Plan, which was adopted in December 2014, sets out the Federal Government’s efficiency strategy. It aims to raise awareness of the economic viability of efficiency measures on a cross-sectoral basis and to put the conditions in place in order to make full use of the potential for efficiency improvements. As of the end of 2017, most projects on the ten-point Energy Agenda have been implemented. This includes important reforms for the electricity market, the support system for renewable energies and the expansion of the grid and energy efficiency. Renewable energies are now the most important source of electricity in Germany, accounting for around one third of gross electricity generation. In order to achieve the long-term goal of an almost CO2-free energy supply, greater efforts will be required to further reduce the total energy requirement across all sectors and to make the electricity system even more flexible. Sector coupling, *i.e.*, the efficient use of renewable electricity for heating, transport and industry, is expected to make an important contribution to decarbonization.

für Wirtschaft und Energie, Jahreswirtschaftsbericht 2017 (https://www.bmwi.de/Redaktion/DE/Publikationen/Wirtschaft/jahreswirtschaftsbericht-2017.pdf?__blob=publicationFile&v=16%5bbmwi.de); Statistisches Bundesamt, General government records surplus of almost 37 billion euros in 2017, press release of February 23, 2018 (https://www.destatis.de/EN/PressServices/Press/pr/2018/02/PE18_059_813.html); Bundesministerium der Finanzen, Bundeshaushalt 2018, press release of June 28, 2017 (http://www.bundesfinanzministerium.de/Content/DE/Pressemitteilungen/Finanzpolitik/2017/06/2017-06-28-PM20-bundeshaushalt-2018.html); Bundesfinanzministerium, Entwicklung der öffentlichen Finanzen, February 2017 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Entwicklung_Oeffentliche_Finanzen/entwicklung-oeffentliche-finanzen.html); Bundesregierung, Ab 2017 beträgt der Mindestlohn 8,84 Euro (https://www.bundesregierung.de/Content/DE/Artikel/2016/10/2016-10-26-neuer-mindestlohn2017.html); Bundesministerium für Arbeit und Soziales, Klare Regeln für Leiharbeit und Werkverträge,press release of June 1, 2016 (http://www.bmas.de/DE/Presse/Pressemitteilungen/2016/pk-leiharbeit-werkvertraege.html); Climate Action Plan 2050, Executive Summary (www.bmub.bund.de/ N53483/); Bundesministerium für Wirtschaft und Energie, Nationales Reformprogramm 2018 (https://www.bmwi.de/Redaktion/DE/Publikationen/Europa/nationales-reformprogramm-2018.pdf?__blob=publicationFile&v=4).*

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

	2017	2016	2015	2014	2013	2017	2016	2015	2014
	(EUR in billions)					(change in %)			
Domestic uses	3,015.0	2,893.4	2,800.3	2,729.5	2,657.8	4.2	3.3	2.6	2.7
Final private consumption	1,735.0	1,674.4	1,630.5	1,593.2	1,563.5	3.6	2.7	2.3	1.9
Final government consumption	638.7	615.4	587.1	563.9	542.9	3.8	4.8	4.1	3.9
Gross fixed capital formation	662.7	630.0	604.3	586.6	556.8	5.2	4.3	3.0	5.4
Machinery and equipment	214.6	205.8	200.8	191.7	180.0	4.3	2.5	4.7	6.5
Construction	322.7	304.5	291.0	289.7	277.2	6.0	4.6	0.4	4.5
Other products	125.4	119.7	112.5	105.1	99.5	4.8	6.4	7.0	5.6
Changes in inventories (1)	-21.3	-26.4	-21.5	-14.2	-5.3	—	—	—	—
Net exports (1)	248.3	250.6	243.3	203.0	168.4	—	—	—	—
Exports	1,542.1	1,450.0	1,426.7	1,340.3	1,283.1	6.3	1.6	6.4	4.5
Imports	1,293.7	1,199.4	1,183.4	1,137.3	1,114.6	7.9	1.4	4.1	2.0
Gross domestic product	**3,263.4**	**3,144.1**	**3,043.7**	**2,932.5**	**2,826.2**	**3.8**	**3.3**	**3.8**	**3.8**

(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 2017 (February 2018), Tables 3.1 and 3.9.

services	474.2	454.0	440.5	418.6	395.4	4.4	3.1	5.2	5.9
Information and communication	138.5	134.3	129.1	124.9	119.9	3.1	4.0	3.4	4.1
Financial and insurance services	110.9	111.5	111.5	109.4	108.5	-0.5	-0.0	2.0	0.8
Real estate activities	317.5	308.9	299.5	290.6	289.9	2.8	3.1	3.1	0.2
Business services	323.9	312.6	301.3	289.0	275.9	3.6	3.8	4.3	4.8
Public services, education, health	536.5	514.6	493.4	476.3	458.4	4.3	4.3	3.6	3.9
Other services	118.6	115.1	111.5	107.2	104.2	3.0	3.3	3.9	2.9
Taxes on products offset against subsidies on products	322.3	312.1	303.4	292.7	283.6	3.3	2.9	3.7	3.2
Gross domestic product	**3,263.4**	**3,144.1**	**3,043.7**	**2,932.5**	**2,826.2**	**3.8**	**3.3**	**3.8**	**3.8**

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2017 (February 2018), 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 59% of the production sector is geographically concentrated in the western *Länder* of Bavaria, Baden-Württemberg and North Rhine-Westphalia. 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 2017, the production sector's aggregate contribution to gross value added at current prices was 25.7% (excluding construction) and 30.6% (including construction), respectively. Its price-adjusted gross value added (excluding construction) increased by 2.7% year-on-year in 2017, after increasing by 1.9% in 2016.

Sources: Volkswirtschaftliche Gesamtrechnungen der Länder, Reihe 1, Ländererergebnisse Band 1 (March 2018), Table 2.3; Statistisches Bundesamt, Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (February 2018), Tables 2.2.1 and 2.2.2.

Durable goods (5)	107.0	102.7	99.7	97.5
Nondurable goods (6)	103.2	101.0	99.8	100.1
Energy (7)	98.8	98.7	100.1	95.2
Construction (8)	108.7	105.3	99.7	101.9

(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 2018, 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 2017, the services sector's aggregate contribution to gross value added at current prices was 68.7%, nearly matching the previous year's level of 68.9%, compared to only 61.9% 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 2016 and 2017.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 2.2.1.

Employment and Labor

As solid economic growth continued in 2017, labor market conditions improved further. In 2017, the average unemployment rate according to the national definition was 5.7%, compared to 6.1% in 2016. Under the ILO definition, the average unemployment rate was 3.6% in 2017 compared to 3.9% in 2016, 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 2017 was 44.2 million, an increase of 1.5% compared to 2016.

Sources: Bundesagentur für Arbeit, Der Arbeits- und Ausbildungsmarkt in Deutschland: Monatsbericht Februar 2018, Table 6.1 (https://statistik.arbeitsagentur.de/Statistikdaten/Detail/201802/arbeitsmarktberichte/monatsbericht-monatsbericht/monatsbericht-d-0-201802-pdf.pdf); Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Tables 2.1.13.

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

	2017	2016	2015	2014	2013
Employed (in thousands)–ILO definition	44,189	43,544	42,990	42,608	42,257
Unemployed (in thousands)–ILO definition (1)	1,633	1,774	1,950	2,090	2,182
Unemployment rate (in %)–ILO definition	3.6	3.9	4.3	4.7	4.9
Unemployed (in thousands)–national definition (2)	2,533	2,691	2,795	2,898	2,950
Unemployment rate (in %)–national definition (3)	5.7	6.1	6.4	6.7	6.9

(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 2017, Table 10.1; Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2017 (February 2018), Table 1.11.

25 to 29	77.9	71.7	80.1	75.7	75.4	67.6
30 to 34	81.9	77.9	87.7	85.7	75.8	70.0
35 to 39	83.5	80.5	89.5	88.1	77.4	72.6
40 to 44	86.0	82.4	89.9	88.0	82.0	76.6
45 to 49	87.4	80.9	90.6	85.8	84.3	76.0
50 to 54	84.6	76.1	88.3	81.8	80.9	70.4
55 to 59	79.0	64.2	83.7	71.9	74.4	56.6
60 to 64	55.7	29.6	61.1	37.6	50.6	21.8
65 and older	6.3	3.3	9.1	4.9	4.2	2.2
Total (15 and older)	**57.8**	**52.5**	**63.1**	**59.3**	**52.8**	**46.1**

Source: Statistisches Bundesamt, Erwerbsbeteiligung, Erwerbstätige und Erwerbstätigenquote nach Geschlecht und Alter 2006 und 2016, Ergebnis des Mikrozensus (https://www.destatis.de/DE/ZahlenFakten/GesamtwirtschaftUmwelt/Arbeitsmarkt/Erwerbstaetigkeit/TabellenArbeitskraefteerhebung/ET_ETQ.html).

The following table presents data with respect to the structure of employment by economic sector for 2017 and 2007.

Structure of Employment—Economic Sectors

	2017	2007
	(Percent of total)	
Agriculture, forestry and fishing	1.4	1.7
Production sector (excluding construction)	18.4	19.4
of which: manufacturing	17.1	18.0
Construction	5.6	5.7
Trade, transport, accommodation and food services	22.8	23.3
Information and communication	2.9	2.9
Financial and insurance services	2.6	3.1
Real estate activities	1.1	1.2
Business services	13.7	12.1
Public services, education, health	24.7	23.4
Other services	6.8	7.3
Total (1)	**100.0**	**100.0**

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

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 2.2.9.

Unit labor costs per hour worked					
Index (2010=100)	112.1	110.3	108.6	106.8	105.3
Change from previous year in %	1.6	1.6	1.8	1.4	1.7

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2017 (February 2018), Tables 2.17 and 2.20.

About 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 2017, approximately 6 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: 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/National-Industrial-Relations/Countries/Germany); Bundeszentrale für politische Bildung, Tarifautonomie (http://www.bpb.de/nachschlagen/lexika/handwoerterbuch-politisches-system/202193/tarifautonomie).

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 persons in need. 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 freelance 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. Furthermore, the Retirement Funds Act (*Altersvermögensgesetz*) aims to ensure the long-term viability of the statutory retirement pension insurance system by encouraging insured persons to also sign up for designated privately funded or corporate-funded 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.

EUR 624.8 billion. The social security budget thus incurred a surplus of EUR 10.5 billion in 2017, after a surplus of EUR 8.2 billion in 2016.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), 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. 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.

To increase the sustainability of the health care system, Germany has implemented several structural reform measures to strengthen competition among providers in order to improve the efficiency and quality of health care services.

Source: Bundesministerium der Gesundheit, Gesundheitsfonds (http://www.bmg.bund.de/themen/krankenversicherung/finanzierung/gesundheitsfonds.html); Bundesministerium für Arbeit und Soziales, Pensions from age 67 (http://www.bmas.de/EN/Our-Topics/Pensions/pensions-from-age-67.html).

International Economic Relations

International economic relations are of major importance to the German economy. In 2017, exports and imports of goods and services amounted to 47.3% and 39.6% of GDP at current prices, respectively. The Federal Republic supports the European Union in pursuing a liberal foreign trade policy aimed at dismantling tariffs and other barriers to trade. The responsibility for trade matters (particularly negotiating free trade agreements) in the EU rests with the European Commission. For further information on the EU's responsibility for trade matters, see "General—The European Union and European Integration— Economic Integration".

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), 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. The Federal Government also supports the Comprehensive Economic and Trade Agreement (CETA), a trade agreement between the EU and Canada. This agreement was approved by the European Parliament in February 2017. On September 21, 2017, CETA entered into force provisionally, *i.e.* most of the agreement, with the exception of investment protection, investment market access for portfolio investment and the Investment Court System, is already in force. CETA will take full effect after ratification by all EU Member States. In December 2017, the EU finalized a free trade agreement with Japan (Economic Partnership Agreement), which is intended to remove the majority of duties and regulatory barriers.

Sources: Bundesministerium für Wirtschaft und Energie, WTO-Welthandelsrunde "Doha Development Agenda" (https://www.bmwi.de/Redaktion/DE/Artikel/Aussenwirtschaft/wto-doha.html); Bundesministerium für Wirtschaft und Energie, CETA – Das europäisch-kanadische Wirtschafts- und Handelsabkommen (http://www.bmwi.de/Redaktion/DE/Dossier/ceta.html); Bundesministerium für Wirtschaft und Energie, Europäisches Parlament stimmt CETA zu, press release of February 15, 2017 (http://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2017/20170215-europaeisches-parlament-stimmt-ceta-zu.html); European Commission, CETA explained (http://ec.europa.eu/trade/policy/in-focus/ceta/ceta-explained/); European Commission, EU and Japan finalise Economic Partnership Agreement, press release of December 8, 2017 (http://trade.ec.europa.eu/doclib/press/index.cfm?id=1767&title=EU-and-Japan-finalise-Economic-Partnership-Agreement).

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 services and secondary income. In 2017, the current account surplus totaled EUR 262.6 billion, compared to EUR 268.8 billion in 2016, a decrease of EUR 6.2 billion. Thus the current account surplus declined to 8.0% of nominal GDP.

Source: Deutsche Bundesbank, Monatsbericht April 2018, 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 approximately 10% of the average indicator value in the period from 1999 to 2018. In 2017, price competitiveness deteriorated by 0.9% compared to 2016, mainly due to the

2017, the average value of the euro against the U.S. dollar in February 2018 was 9.3% higher than the 2017 average.

Sources: Deutsche Bundesbank, Monatsbericht März 2018, Tables XII.3, XII.10 and XII.12 (https://www.bundesbank.de/Redaktion/DE/Downloads/Veroeffentlichungen/Monatsberichte/2018/2018_03_monatsbericht.pdf?__blob=publicationFile).

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

BALANCE OF PAYMENTS (BALANCES)

	2017	2016	2015	2014	2013
			(EUR in millions)		
Current account					
Trade in goods (1)	265,442	267,999	261,135	228,185	212,662
Services (2)	-16,123	-19,948	-16,918	-24,491	-41,376
Primary income	67,357	60,639	67,222	56,549	62,444
Secondary income	-54,120	-39,879	-40,044	-41,283	-43,639
Total current account	**262,556**	**268,811**	**271,394**	**218,959**	**190,092**
Capital account (3)	-254	3,468	534	2,936	-563
Financial account					
Net German investment abroad (increase: +)	358,805	397,043	270,235	308,445	62,651
Net foreign investment in Germany (increase: +)	83,057	139,350	30,817	68,329	-162,709
Net financial account (net lending: + / net borrowing: -)	**275,748**	**257,693**	**239,418**	**240,116**	**225,360**
Net errors and omissions (4)	13,446	-14,586	-32,511	18,221	35,831

(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.

Sources: Deutsche Bundesbank, Zahlungsbilanzstatistik, Table I.1. Wichtige Posten der Zahlungsbilanz (https://www.bundesbank.de/Redaktion/DE/Downloads/Statistiken/Aussenwirtschaft/Zahlungsbilanz/b30607.pdf?__blob=publicationFile); Deutsche Bundesbank, Zahlungsbilanzstatistik, Table I.9.a) Kapitalbilanz insgesamt (https://www.bundesbank.de/Redaktion/DE/Downloads/Statistiken/Aussenwirtschaft/Zahlungsbilanz/b33637.pdf?__blob=publicationFile).

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)

	2017	2016	2015	2014	2013
			(EUR in millions)		
Exports of goods	1,270,122	1,192,058	1,179,139	1,115,345	1,080,212
Imports of goods	1,004,680	924,059	918,004	887,161	867,550
Trade balance	**265,442**	**267,999**	**261,135**	**228,185**	**212,662**

(1) Including supplementary trade items.

Source: Deutsche Bundesbank, Zahlungsbilanzstatistik, Table I.1. Wichtige Posten der Zahlungsbilanz (https://www.bundesbank.de/Redaktion/DE/Downloads/Statistiken/Aussenwirtschaft/Zahlungsbilanz/b30607.pdf?__blob=publicationFile).

Bundesministerium für Wirtschaft und Energie, Zahlen und Fakten Energiedaten, Tabelle 3 (http://www.bmwi.de/Redaktion/DE/Artikel/Energie/energiedaten-gesamtausgabe.html).

Germany's Current Account Surplus and the Macroeconomic Imbalance Procedure

Within the framework of the MIP established in 2011, on November 22, 2017, the European Commission published the Alert Mechanism Report 2018, which, similar to the previous year's report, *inter alia* noted the current account surplus observed in Germany. An in-depth review was conducted 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 continues to experience macroeconomic imbalances that are not excessive. The Commission points out that subdued private and public investment has contributed to the high and persistent current account surplus. 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 an important pillar of the entire European economy. The Federal Government is taking a comprehensive approach to strengthen both public and private sector investments and has already taken numerous measures in the last legislative term to give a further boost to investment dynamics. Based on record-high employment, rising salaries, increasing private investment and targeted fiscal expansion especially in public investment, domestic demand continues to be the main driver of robust growth in Germany. As the European Commission notes in its in-depth review, the surplus has already edged down from its peak value reached in 2015 and is expected to gradually decline further in the coming years. Furthermore, it should be noted that Germany's current account surplus to a large extent may be explained by temporary factors, e.g., the development of exchange rates and fluctuations in the price of oil, as well as by fundamentals, e.g., demographic change. These factors usually remain unaffected by economic and financial policy measures.

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 2018, dated November 22, 2017 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017DC0771&from=EN); European Commission, Commission Staff Working Document, Country Report Germany 2018, Including an In-Depth Review on the prevention and correction of macroeconomic imbalances (https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-germany-en.pdf); European Commission, Communication from the Commission to the European Parliament, the Council, the European Central Bank and the Eurogroup, 2018 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under regulation (EU) No 1176/2011 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0120&from=EN); European Commission, Economic and Financial Affairs, EU Economic governance: monitoring, prevention, correction , Macroeconomic imbalance procedure (http://ec.europa.eu/economy_finance/economic_governance/macroeconomic_imbalance_procedure/mip_reports/index_en.htm); Bundesministerium für Wirtschaft und Energie, Nationales Reformprogramm 2018 (https://www.bmwi.de/Redaktion/DE/Publikationen/Europa/nationales-reformprogramm-2018.html); Bundesministerium der Finanzen, Monatsbericht des BMF März 2017, Analysen und Berichte, Der deutsche Leistungsbilanzsaldo – Entwicklung und wirtschaftspolitische Implikationen (http://www.bundesfinanzministerium.de/Monatsberichte/2017/03/Inhalte/Kapitel-3-Analysen/3-2-Der-deutsche-Leistungsbilanzsaldo.html).

Crude petroleum and natural gas	3.4	0.3
Metal ores	0.7	0.0
Other mining and quarrying products	0.1	0.1
Food products	4.5	4.2
Beverages	0.6	0.4
Tobacco products	0.1	0.3
Textiles	1.1	0.9
Wearing apparel	3.2	1.4
Leather and related products	1.4	0.7
Wood and of products of wood and cork, except furniture; articles of straw and plaiting materials	0.6	0.6
Paper and paper products	1.4	1.5
Coke and refined petroleum products	2.0	1.0
Chemicals and chemical products	7.6	9.0
Basic pharmaceutical products and pharmaceutical preparations	5.2	5.9
Rubber and plastic products	2.9	3.6
Other non-metallic mineral products	1.1	1.2
Basic metals	5.7	4.2
Fabricated metal products, except machinery and equipment	2.8	3.4
Computer, electronic and optical products	10.9	8.6
Electrical equipment	5.8	6.5
Machinery and equipment not elsewhere classified	7.8	14.4
Motor vehicles, trailers and semi-trailers	11.1	18.3
Other transport equipment	3.2	4.5
Furniture	1.2	0.8
Energy	0.1	0.2
Other goods	10.1	6.9
Total	**100.0**	**100.0**

(1) Preliminary data.

Source: Statistisches Bundesamt, Fachserie 7, Reihe 1 – 2017 (March 2018), Tables 1.11.1 and 1.11.2; calculation of percentages by KfW based on import and export values in EUR thousands, respectively; figures may not add up to total due to rounding.

China (2)	86,195	76,046	71,284
The Netherlands	85,886	78,433	79,191
United Kingdom	84,365	85,939	89,018
Italy	65,558	61,265	57,987
Austria	62,830	59,778	58,217
Switzerland	54,006	50,161	49,070
New industrial countries and emerging markets of Asia (3)	53,453	51,921	51,510
Belgium/Luxembourg	50,042	46,931	46,196
Spain	43,043	40,497	38,715
Japan	19,532	18,307	16,968
Imports from:			
Total	**1,034,409**	**954,917**	**949,245**
of which:			
China (2)	100,452	94,172	91,930
The Netherlands	91,374	83,142	87,889
France	64,168	65,651	66,819
United States	61,067	57,968	60,217
Italy	55,803	51,737	49,038
New industrial countries and emerging markets of Asia (3)	50,807	42,966	42,478
Switzerland	45,709	43,896	42,089
Belgium/Luxembourg	44,154	40,960	40,116
Austria	41,236	38,543	37,250
United Kingdom	37,140	35,654	38,414
Spain	31,671	27,870	26,442
Japan	22,901	21,922	20,180

(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 März 2018, Table XII.3.

European Union	429.8	356.0
of which: European Monetary Union	*193.9*	*296.2*
of which: United Kingdom	*121.3*	*38.7*
Switzerland	34.1	34.7
Russia	15.8	3.5
United States	290.4	28.1
Canada	14.8	1.0
Central America	20.4	4.0
South America	28.5	0.2
Asia	144.6	29.2
of which: China	*69.6*	*2.2*
of which: Japan	*11.6*	*18.6*
Australia	18.7	1.2
Africa	8.6	0.0
Selected economic sectors of investment object		
Manufacturing	365.1	114.7
of which: Chemicals and chemical products	*82.7*	*14.0*
of which: Machinery and equipment	*34.8*	*17.7*
of which: Motor vehicles, trailers and semi-trailers	*92.9*	*-0.2*
Electricity, gas, steam and air conditioning supply	41.3	16.5
Wholesale and retail trade; repair of motor vehicles and motor cycles	166.5	53.6
Information and communication	58.1	49.0
Financial and insurance activities	286.8	163.3
Real estate activities	30.8	30.9
Professional, scientific and technical activities	17.0	13.1

(1) German foreign direct investment abroad.

(2) Foreign direct investment in Germany.

(3) Primary and secondary direct investment (consolidated).

Source: Deutsche Bundesbank, Bestandserhebung über Direktinvestitionen, Statistische Sonderveröffentlichung 10 (April 2017), Tables 1.2.a, I.2. c, II.2.a, II.2.b.

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 2016, pages 101-107 (http://www.ecb.europa.eu/pub/pdf/annrep/ar2016en.pdf); European Central Bank, About, Organisation: ECB, ESCB and the Eurosystem (https://www.ecb.europa.eu/ecb/orga/escb/html/index.en.html); Deutsche Bundesbank, Tasks (http://www.bundesbank.de/Navigation/EN/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 non-standard 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, Monetary Policy: The Eurosystem's Instruments (https://www.ecb.europa.eu/mopo/implement/html/index.en.html).

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).

Source: European Central Bank, Monetary Policy: Strategy (https://www.ecb.europa.eu/mopo/strategy/html/index.en.html).

(1)	2.6	-1.7	-1.8	-1.0	-0.1

(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 2018, 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				
	2017	2016	2015	2014	2013
	(EUR in millions)				
Gold	117,347	119,253	105,792	107,475	94,876
Cash, deposits and securities investments	31,215	34,993	33,423	30,646	28,080
Special drawing rights	13,987	14,938	15,185	14,261	12,837
Reserve position in the IMF	4,294	6,581	5,132	6,364	7,961
Total	**166,842**	**175,765**	**159,532**	**158,745**	**143,753**

(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 Februar 2018, 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 40.8 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 2016, page 20 (https://www.ecb.europa.eu/pub/pdf/annrep/ar2016annualaccounts_en.pdf).

Assets	1,142.8	990.5	800.7	678.8	721.7
of which: clearing accounts within ESCB (1)	*906.9*	*754.3*	*584.2*	*460.8*	*510.2*
Liabilities (2)	675.3	592.7	481.8	396.3	401.5
Net position	467.6	397.7	318.9	282.5	320.2
Banks					
Loans to foreign banks	963.8	1,055.9	1,066.9	1,125.2	1,019.7
Loans to foreign non-banks	723.9	756.2	751.5	735.1	701.0
Deposits and loans from foreign banks	659.0	696.1	611.9	609.2	515.7
Deposits and loans from foreign non-banks	241.2	206.2	201.1	221.0	257.8

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

(2) Including estimates of currency in circulation abroad.

Source: Deutsche Bundesbank, Monatsbericht März 2018, 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 VAT on some transactions.

Sources: International Monetary Fund, Selected Decisions and Selected Documents of the IMF, Thirty-Ninth Issue—Freely Usable Currencies, Prepared by the Legal Department of the IMF, As updated as of March 31, 2017 (https://www.imf.org/external/pubs/ft/sd/index.asp?decision=11857-(98/130)); Bank for International Settlements, Triennial Central Bank Survey, Foreign exchange turnover in April 2016, September 2016, Annex tables revised on 11 December 2016 (http://www.bis.org/publ/rpfx16fx.pdf).

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)

	2017	2016	2015	2014	2013
U.S. dollars per euro	1.1297	1.1069	1.1095	1.3285	1.3281
Pound sterling per euro	0.87667	0.81948	0.72584	0.80612	0.84926
Japanese yen per euro	126.71	120.20	134.31	140.31	129.66
Swiss franc per euro	1.1117	1.0902	1.0679	1.2146	1.2311
Chinese yuan per euro	7.6290	7.3522	6.9733	8.1857	8.1646

(1) Calculated from daily values.

Source: Deutsche Bundesbank, Monatsbericht Februar 2018, Table XII.10.

Financial System

German Financial System

Overview. As of January 31, 2018, 1,627 monetary financial institutions in Germany reported an aggregate balance sheet total of EUR 7,861.8 billion to the Deutsche Bundesbank. According to the Deutsche Bundesbank's classification, these institutions included:

- 264 commercial banks, with an aggregate balance sheet total of EUR 3,203.5 billion;
- 386 savings banks, with an aggregate balance sheet total of EUR 1,196.4 billion;

- 917 credit cooperatives, with an aggregate balance sheet total of EUR 889.1 billion;
- 13 mortgage banks, with an aggregate balance sheet total of EUR 225.9 billion;
- 20 building and loan associations, with an aggregate balance sheet total of EUR 230.2 billion; and
- 142 subsidiaries and branches of foreign banks located in the Federal Republic with an aggregate balance sheet total of EUR 1,149.0 billion. These institutions, which are majority-owned by foreign banks, are also included in the totals of the other categories of banks listed above.

Source: Deutsche Bundesbank, Monatsbericht März 2018, Table IV.2.

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 have become applicable 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 Germany as a financial center in the context of European integration and international cooperation, as well as to strengthen collective consumer protection through its regulatory actions. The BaFin, which is subject to the legal and technical oversight of the Federal Ministry of Finance, operates exclusively in the public interest. It helps 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. Furthermore, the German Federal Agency for Financial Market Stabilization (*Bundesanstalt für Finanzmarktstabilisierung*, or "FMSA") supervises two wind-up institutions, Erste Abwicklungsanstalt and FMS Wertmanagement, as well as Portigon AG (the legal successor of former Landesbank West LB which is in the process of being wound-up), all of which were founded under its auspices in order to stabilize the financial market (see "—Wind-up Institutions").

In November 2014, the Single Supervisory Mechanism ("SSM") – as one of the pillars of the European banking union – became operational. Under the SSM, the ECB is the central prudential supervisor of financial institutions in the euro area as well as in non-euro EU countries that choose to join the SSM. The ECB directly supervises the largest banks, while the national supervisors continue to monitor the remaining banks. The ECB and the national supervisors work closely together to ensure the banks' compliance with EU banking regulations and to be able to address issues early on.

In order to facilitate the timely identification of risks to financial stability, the Financial Stability Commission (*Ausschuss für Finanzstabilität*), which consists of representatives of the Federal Ministry of Finance, the Deutsche Bundesbank, and BaFin, was established in March 2013. Due to its macroeconomic and financial market expertise, the Deutsche Bundesbank is responsible for contributing towards safeguarding financial stability and 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, which may pass resolutions with respect thereto. 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.

Sources: Bundesministerium der Justiz, Gesetz über das Kreditwesen (http://www.gesetze-im-internet.de/kredwg/index.html); Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin, Functions & history (https://www.bafin.de/EN/DieBaFin/AufgabenGeschichte/aufgabengeschichte_node_en.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 (Aufsichtsrichtlinie), May 21, 2013, altered on December 19, 2016 within the framework of the Single Supervisory Mechanism ("SSM", see "—European Financial System—European System of Financial Supervision and European Banking Union"). The BRRD was adopted in May 2014 to provide authorities with comprehensive and effective arrangements to deal with failing banks at the national level and with cooperation arrangements to tackle cross-border banking failures. The BRRD includes rules to set up national resolution funds, which must be established by each EU Member State, and it requires banks to prepare recovery plans to overcome financial distress.

On January 1, 2018, FMSA's duties deriving from its role as the national resolution authority were integrated into the Federal Financial Supervisory Authority (BaFin) as a new and independently operating division. At the same time, FMSA's responsibilities of administering and managing the Financial Market Stabilisation Fund ("Sondervermögen Finanzmarktstabilisierungsfonds", or "FMS") were incorporated into the Federal Republic of Germany – Finance Agency (*Bundesrepublik Deutschland – Finanzagentur GmbH*). The FMS was originally created during the financial crisis on October 17, 2008. Until the Single Resolution Mechanism ("SRM") became fully operational on January 1, 2016, and functionally replaced the FMS, the latter was responsible for stabilizing German banks by extending guarantees covering the banks' securities and by granting loans. The stabilization measures provided by the FMS amounted to EUR 14.6 billion in capital injections, while loss compensation payments made to FMS Wertmanagement totaled EUR 9.3 billion.

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

Sources: Deutsche Bundesbank, Glossary: Restructuring Act (https://www.bundesbank.de/Navigation/EN/Service/Glossary/Functions/glossary.html?lv2=129546&lv3=145952#145952.de); European Commission: Bank recovery and resolution (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/managing-risks-banks-and-financial-institutions/bank-recovery-and-resolution_en); 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); 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 über die Erhebung der Beiträge zum Restrukturierungsfonds für Kreditinstitute (Restrukturierungsfonds-Verordnung—RStruktFV) (http://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Verordnungen/2015-07-22-RStruktFV.html); Gesetz zur Neuordnung der Aufgaben der Bundesanstalt für Finanzmarktstabilisierung (FMSA-Neuordnungsgesetz—FMSANeuOG) (http://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Verordnungen/2016-12-28-FMSANeuOG.html); Federal Agency for Financial Market Stabilisation: History (https://www.fmsa.de/en/history/);Bundesrepublik Deutschland – Finanzagentur GmbH, Financial Market Stabilisation, Financial Market Stabilisation Fund (FSM) (https://www.deutsche-finanzagentur.de/en/financialmarketstabilisation/);Federal Financial Supervisory Authority (BaFin): Recovery and resolution (https://www.bafin.de/EN/Aufsicht/BankenFinanzdienstleister/Massnahmen/SanierungAbwicklung/sanierung_abwicklung_node_en.html).

Wind-up Institutions. In the wake of the global financial crisis, two wind-up institutions (*Abwicklungsanstalten*) for troubled German banks were established. 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 31, 2017, the combined asset portfolios had been reduced to approximately EUR 40 billion.

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, 2017, FMS Wertmanagement's portfolio had been reduced to EUR 76.8 billion.

Sources: Bundesministerium der Justiz, Gesetz über das Kreditwesen (http://www.gesetze-im-internet.de/kredwg/index.html); Bundesanstalt für Finanzdienstleistungsaufsicht, BaFin, Functions & history (https://www.bafin.de/EN/DieBaFin/AufgabenGeschichte/aufgabengeschichte_node_en.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 (Aufsichtsrichtlinie), May 21, 2013, altered on December 19, 2016 (https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Aufsichtsrecht/Richtlinie/rl_130521_aufsichtsrichtlinie.html); BaFin, Act on the Strengthening of German Financial Supervision, January 18, 2013 (https://www.bafin.de/SharedDocs/Veroeffentlichungen/EN/Fachartikel/2013/fa_bj_2013_01_finstabg_en.html); Bundesanstalt für Finanzmarktstabilisierung (FMSA): Federal Agency for Financial Market Stabilisation (https://www.fmsa.de/en/); Portigon AG: Unternehmensinformationen (http://www.portigon-ag.de/acm/cm/content/portigon/i/de/portigon-ag/unternehmensinformationen.html); Bundesbank, German macroprudential oversight strengthened, press release of March 18, 2013 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 currently chaired by the President of the ECB.

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

- the European Banking Authority ("EBA");
- the European Insurance and Occupational Pensions Authority; and
- the European Securities and Markets Authority.

The three European Supervisory Authorities ("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.

One of the key elements of Europe's banking union, which was established in the wake of the European sovereign debt crisis, is the 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 in November 2014. In its role within the SSM, the ECB directly supervises 118 significant banks and banking groups, which represent almost 82% of the total assets on the aggregated balance sheets of all credit institutions under its supervision. For the remaining 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.

Another key element of Europe's banking union is the SRM which was established by a regulation adopted in July 2014 and has become fully operational starting January 1, 2016 with the purpose of ensuring the orderly resolution of failing banks. The SRM consists of a single resolution board ("SRB"), which has broad powers in cases of bank resolution, and the Single Resolution Fund ("SRF"). The SRB is responsible for the planning and resolution phases of cross-border banks and those directly supervised by the ECB, while since January 1, 2015 national resolution authorities are responsible for all other banks under the BRRD. However, the SRB will always be responsible if the resolution of a bank requires access to the SRF. The SRF is being built up over a period of eight years from 2016 to 2023 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 (estimated in 2014 to be approximately EUR 55 billion by the end of 2023). 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. Companies defined in article 2 paragraph 5 of the EU Capital Requirements Directive IV ("CRD IV"), including KfW, are not required to contribute to the fund. In the aggregate, the European Commission estimates that the German banking sector is required to contribute just under EUR 15.5 billion to the SRF by 2023. During the transitional period each participating Member State is providing an individual national credit line to the SRB to back its banks' contributions to the SRF in the event of possible funding shortfalls following resolution cases of its banks. By now all 19 participating Member States have signed the Loan Facility Agreements with the SRB which are the basis for the bridge financing in the form of national credit lines to the SRB. The maximum aggregate amount of the credit lines of the participating Member States will amount to around EUR 55 billion. The repartition key among Member States corresponds to the contributions to the SRF, which will be made by banks in each Member State by 2023.

In November 2015, the European Commission proposed a European Deposit Insurance Scheme ("EDIS") as an additional element of the European banking union. Since then, work on a technical level has continued. Negotiations on a political level will start as soon as sufficient further progress has been made on the measures on risk reduction, as mentioned in the Roadmap, adopted by the Council on June 17, 2016. In a communication of October 11, 2017 regarding the completion of the Banking Union, the European Commission suggested discussing the introduction of EDIS more gradually than originally proposed in November 2015 to give new impetus to the negotiations on EDIS. To date, the EU has agreed on common rules to harmonize the national deposit insurance schemes.

efficient and orderly resolution process and enhance financial stability in the EU. They also aim to align the EU's banking union rules with a number of elements agreed at the international level, in particular, the standards agreed within the Basel Committee on Banking Supervision and by the Financial Stability Board. The amendments are designed to update the capital requirements for banks and make these rules less complex and burdensome for smaller banks, as well as to improve the capacity of credit institutions to support the economy. In December 2016 the Council of the European Union started working on these proposals, and in June 2017 it agreed on a negotiating position regarding them. Negotiations with the European Parliament will follow once the Parliament has agreed its own negotiating stance.

Sources: European Commission, European system of financial supervision (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/european-system-financial-supervision_en); European Commission, Banking Union (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/banking-union_en); Council of the European Union, Banking Union (http://www.consilium.europa.eu/en/policies/banking-union/); Deutsche Bundesbank, Service, Schule und Bildung, Schülerbuch Geld und Geldpolitik digital, Das Banken und Finanzsystem: Sicherung der Stabilität des Finanzsystems (https://www.bundesbank.de/Redaktion/DE/Dossier/Service/schule_und_bildung_kapitel_4.html?notFirst=true&docId=147562#chap); 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, Banking Supervision, Single Supervisory Mechanism (https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html); European Commission, Single Resolution Mechanism to come into effect for the Banking Union, press release of December 31, 2015 (http://europa.eu/rapid/press-release_IP-15-6397_en.htm); Deutsche Bundesbank, Compromise reached over resolution fund, article dated December 22, 2014 (https://www.bundesbank.de/Redaktion/EN/Topics/2014/2014_12_22_compromise_reached_resolution_fund.html); Single Resolution Board, Single Resolution Fund: What is the Single Resolution Fund? (https://srb.europa.eu/en/content/single-resolution-fund); Banking Union – Single Resolution Board completes signature of Loan Facility Agreements with all 19 participating Member States, February 8, 2016 (https://srb.europa.eu/en/node/196); European Banking Authority, Implementing Basel III in Europe: CRD IV Package (http://www.eba.europa.eu/regulation-and-policy/implementing-basel-iii-europe); Council of the European Union, Banking Union, Amendments to the banking union rules (http://www.consilium.europa.eu/en/policies/banking-union/2016-amendments); European Commission, Communication from the Commission: Completing the banking union, first published on October 11, 2017 (https://ec.europa.eu/info/publications/171011-communication-banking-union_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 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 introduced a number of non-standard monetary policy measures, including, among others, asset purchase programs, long-term refinancing operations and measures aimed at increasing collateral availability. These measures are unprecedented in nature, scope and magnitude and aim to safeguard the primary objective of price stability and ensure an appropriate monetary policy transmission mechanism.

In September 2012, the ECB announced Outright Monetary Transactions in secondary markets for euro-denominated sovereign bonds in the euro area aimed at enabling the ECB to address severe distortions in government bond markets. In June 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 eight targeted longer-term refinancing operations ("TLTROs") between September 2014 and June 2016. These TLTROs were 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 purchases. The last operation of this series of TLTROs was successfully conducted and settled in June 2016. All these TLTROs will mature in September 2018.

In addition, the ECB seeks to provide monetary stimulus to the economy through its asset purchase program which was launched in October 2014 and significantly expanded in March 2015. This program is being conducted to further ease monetary and financial conditions in a context where key ECB interest rates are at their lower bound. Since mid-2016, it has consisted of four elements: a covered bond purchase program, an asset-backed securities purchase program, a public sector purchase program (including, among others, debt securities of KfW) and a corporate sector purchase program. Monthly purchases of public and private sector securities are currently intended to amount to EUR 30 billion. The ECB has repeatedly announced that it intends to carry out these purchases at least until September 2018 and, in any case, until it 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.

policy decisions: Non-standard measures (https://www.ecb.europa.eu/mopo/decisions/html/index.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); European Central Bank, ECB announces further details of the targeted long-term refinancing operations, press release of July 3, 2014 (https://www.ecb.europa.eu/press/pr/date/2014/html/pr140703_2.en.html); European Central Bank, ECB announces new series of targeted longer-term refinancing operations (TLTRO II), press release of March 10, 2016 (http://www.ecb.europa.eu/press/pr/date/2016/html/pr160310_1.en.html); European Central Bank, Consolidated financial statement of the Eurosystem as at 1 July 2016 (https://www.ecb.europa.eu/press/pr/wfs/2016/html/fs160706.en.html); Bundesbank, Gezielte längerfristige Refinanzierungsgeschäfte I (https://www.bundesbank.de/Redaktion/DE/Standardartikel/Aufgaben/Geldpolitik/glrg_1_ausstehende_glrg.html); European Central Bank, Consolidated financial statement of the Eurosystem as at 31 March 2017 (https://www.ecb.europa.eu/press/pr/wfs/2017/html/fs170405.en.html); Bundesbank, Gezielte längerfristige Refinanzierungsgeschäfte II (https://www.bundesbank.de/Redaktion/DE/Standardartikel/Aufgaben/Geldpolitik/glrg_2_ausstehende_glrg.html); European Central Bank, Asset purchase programmes (https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html); European Central Bank, Introductory Statement to the press conference (with Q&A), Mario Draghi, President of the ECB, Frankfurt am Main, January 22, 2015 (https://www.ecb.europa.eu/press/pressconf/2015/html/is150122.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, ECB adds corporate sector purchase programme (CSPP) to the asset purchase programme (APP) and announces changes to APP, press release of March 10, 2016 (http://www.ecb.europa.eu/press/pr/date/2016/html/pr160310_2.en.html); European Central Bank, Monetary policy decisions, press release of March 8, 2017 (https://www.ecb.europa.eu/press/pressconf/2018/html/ecb.is180308.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 and the European Energy Exchange are recognized as regulated markets of the EU according to Article 56 of Directive 2014/65/EU 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."

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). The proposal is still subject to discussion.

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, topical information originating from press release of January 27, 2015 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Steuern/Weitere_Steuerthemen/Finanztransaktionsteuer/2014-01-27-ftt-statement.html).

Bundestag, and the Bundesrat, which deliberates on 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 2017, total consolidated general government revenue, as presented in the national accounts, amounted to EUR 1,474.6 billion, with tax revenue of EUR 767.2 billion and net social contributions of EUR 548.1 billion.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 3.4.3.2.

In 2017, VAT and the taxes on income and wealth, as presented in the national accounts, amounted to EUR 226.6 billion and EUR 422.6 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 – 2017 (March 2018), Table 3.4.3.16.

Consolidated general government expenditure in 2017, as presented in the national accounts, amounted to a total of EUR 1,438.0 billion. The most significant consolidated general government expenditures were monetary social benefits (EUR 505.5 billion), social benefits in kind (EUR 277.9 billion) and employee compensation (EUR 246.5 billion). Other significant consolidated general government expenditures included intermediate consumption (EUR 155.3 billion), interest on public debt (EUR 38.9 billion) and gross capital formation (EUR 70.3 billion).

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 3.4.3.2.

GENERAL GOVERNMENT ACCOUNTS (1)

	2017	2016	2015	2014	2013
			(EUR in billions)		
Federal Government, *Länder* governments and municipalities					
Revenue	955.4	918.7	880.0	853.5	820.8
of which: Taxes (2)	*767.2*	*732.0*	*698.0*	*668.7*	*646.3*
Expenditure	929.3	901.3	863.3	847.1	830.2
Balance	**26.1**	**17.4**	**16.7**	**6.4**	**-9.4**
Social security funds					
Revenue	635.4	606.9	579.9	557.7	540.1
Expenditure	624.8	598.6	577.2	554.6	534.7
Balance	**10.5**	**8.2**	**2.7**	**3.2**	**5.4**
General government					
Revenue	1,474.6	1,414.2	1,354.3	1,308.3	1,259.0
Expenditure	1,438.0	1,388.6	1,334.9	1,298.8	1,263.0
Balance	**36.6**	**25.7**	**19.4**	**9.5**	**-4.0**

(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 – 2017 (March 2018), Tables 3.4.3.2, 3.4.3.3 and 3.4.3.7.

(1) Definition according to the national accounts.

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

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 3.4.3.4.

GENERAL GOVERNMENT EXPENDITURE: BREAKDOWN BY FUNCTIONS (1)

	2017	2016	2015	2014	2013
			(EUR in billions)		
General public services	189.1	183.4	179.8	188.3	184.8
Defense	35.3	32.6	30.1	29.8	30.5
Public order and safety	50.5	49.9	47.1	46.1	44.8
Economic affairs	98.2	96.7	93.7	91.0	91.7
Environmental protection	20.4	19.2	18.0	17.7	17.4
Housing and community amenities	12.4	11.9	11.6	11.5	11.7
Health	233.3	225.3	217.5	209.7	198.9
Recreation, culture and religion	32.8	31.7	30.6	30.4	29.0
Education	134.7	132.3	127.6	124.3	120.7
Social protection	631.3	605.5	578.9	549.9	533.6
Total expenditure	**1,438.0**	**1,388.6**	**1,334.9**	**1,298.8**	**1,263.0**

(1) Definition according to the national accounts.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), 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 the general government (central government, state government, local government and social security funds) as defined in ESA 2010. In 2017, Germany's general government surplus amounted to EUR 36.6 billion, or 1.1% of nominal GDP. The German general government gross debt-to-GDP ratio decreased from 68.2% in 2016 to 64.1% in 2017, which is above the EU's 60% reference value.

Sources: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2017 (February 2018), Table 1.10; Council of the European Union, Consolidated versions of the Treaty on European Union and the Treaty on the Functioning of the European Union and the Charter of Fundamental Rights of the European Union (http://data.consilium.europa.eu/doc/document/ST-6655-2008-REV-8/en/pdf); Deutsche Bundesbank, German general government debt down in 2017 by €53 billion to €2.09 trillion – debt ratio down from 68.2 % to 64.1 %, press release of March 29, 2018 (https://www.bundesbank.de/Redaktion/EN/Pressemitteilungen/BBK/2018/2018_03_29_general_government_debt.html?https=1).

Sources: Statistisches Bundesamt, Fachserie 18, Reihe 1.2 – 4. Vierteljahr 2017 (February 2018), Table 1.10; Deutsche Bundesbank, German general government debt down in 2017 by €53 billion to €2.09 trillion – debt ratio down from 68.2 % to 64.1 %, press release of March 29, 2018 (https://www.bundesbank.de/Redaktion/EN/Pressemitteilungen/BBK/2018/2018_03_29_general_government_debt.html?https=1).

Fiscal Outlook

The April 2018 update of the German stability program forecasts the general government budget to remain in surplus until 2021, the end of the forecasting period. The medium-term objective of a structural deficit not exceeding 0.5% of GDP is expected to be met with a safety margin during the entire forecasting period (2018 to 2021).

According to the April 2018 update of the German stability program, Germany's general government gross debt-to-GDP ratio is projected to be 61 % in 2018 and to decrease further to around 53% by 2021, 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. The debt ratio is expected to fall below the EU's reference value of 60% of nominal GDP in 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 2018 (https://www.bundesfinanzministerium.de/Content/DE/Downloads/Abt_2/Stabilitaetsprogramm-2018.pdf?__blob=publicationFile&v=4), Tables 14 and 17.

GENERAL GOVERNMENT BUDGETARY PROSPECTS (1)

	2021	2020	2019	2018	2017
Revenue	44 ¾	44 ¾	44 ¾	44 ¾	45.2
Total taxes	23 ¾	23 ½	23 ½	23 ½	23.5
Social contributions	16 ¾	16 ¾	16 ¾	16 ¾	16.8
Property income	½	½	½	½	0.5
Other	4	4	4	4 ¼	4.4
Expenditure (2)	43 ¼	43 ½	43 ½	44	44.1
Compensation of employees and intermediate consumption	11 ¾	12	12	12 ¼	12.3
Social payments	24	24	23 ¾	23 ¾	24.0
Interest expenditure	1	1	1	1	1.2
Subsidies	1	1	1	1	0.8
Gross fixed capital formation	2 ¼	2 ¼	2 ¼	2 ¼	2.2
Capital transfers	1	1	1	1 ¼	1.3
Other	3 ¼	3 ¼	3 ½	3 ½	3.5
General government deficit (–) / surplus (+)	**1 ½**	**1 ½**	**1 ¼**	**1**	**1.1**
Federal Government	½	¼	¼	0	0.0
Länder governments	¾	¾	¾	¼	0.5
Municipalities	¼	¼	¼	½	0.3
Social security funds	0	¼	¼	¼	0.3
General government gross debt	**53**	**55 ¾**	**58 ¼**	**61**	**64.1**

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, Solidaritätszuschlaggesetz 1995, § 4 Zuschlagssatz (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, § 12 Steuersätze (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, § 3 Steuertarif (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).

of which: VAT	*226.6*	*218.8*	*211.6*	*203.1*	*197.0*
Current taxes on income and wealth	422.6	397.2	372.3	353.8	340.5
of which: Wage tax	*235.0*	*223.0*	*215.0*	*203.9*	*194.2*
Assessed income tax	*58.0*	*52.1*	*46.9*	*43.9*	*41.0*
Non-assessed taxes on earnings	*29.8*	*26.6*	*27.5*	*25.6*	*27.0*
Corporate tax	*31.6*	*29.3*	*21.6*	*21.6*	*21.1*
Capital taxes	6.1	7.0	6.3	5.5	4.6
Tax revenue of general government	**773.3**	**739.0**	**704.3**	**674.1**	**651.0**
Taxes of domestic sectors to EU	5.2	5.2	5.5	4.6	4.3
Taxes	**778.6**	**744.1**	**709.8**	**678.7**	**655.3**

(1) Definition according to the national accounts.

Source: Statistisches Bundesamt, Fachserie 18, Reihe 1.4 – 2017 (March 2018), Table 3.4.3.16.

Government Participations

The Federal Republic and its various special funds held direct participations in 106 public and private enterprises as of December 31, 2016.

Source: Bundesministerium der Finanzen, Die Beteiligungen des Bundes – Beteiligungsbericht 2017 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Bundesvermoegen/Privatisierungs_und_Beteiligungspolitik/Beteiligungspolitik/Beteiligungsberichte/Beteiligungsbericht-2017.html), 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, 2016.

PARTICIPATIONS OF THE FEDERAL REPUBLIC

Enterprises	Total nominal capital of enterprise (EUR in millions)	Participation of the Federal Republic (%)
Significant majority participations:		
Deutsche Bahn AG	2,150	100.0
KfW	3,750	80.0
Hypo Real Estate Holding GmbH (1)	909	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 2017 (http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Bundesvermoegen/Privatisierungs_und_Beteiligungspolitik/Beteiligungspolitik/Beteiligungsberichte/Beteiligungsbericht-2017.html), Chapters B, E and O paragraph II.

Direct Debt of the Federal Government

As of December 31, 2017, the Federal Government's direct debt totaled EUR 1,086.3 billion, compared to EUR 1,089.2 billion as of December 31, 2016.

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.

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, 2017 for capital subscriptions to various international financial organizations, see the table entitled "Tables and Supplementary Information—III. Liabilities to International Financial Organizations."

Federal Bonds (*Bundesanleihen*)	731,500
Bonds of the Federal Republic and the Länder (*Bund-Länder-Anleihe*)	405
Inflation-linked Securities (*inflationsindexierte Bundeswertpapiere*)	75,000
Federal Notes (*Bundesobligationen*)	213,000
Federal Treasury Notes (*Bundesschatzanweisungen*)	100,000
Federal Savings Notes (*Bundesschatzbriefe*)	289
Treasury Discount Paper (*Unverzinsliche Schatzanweisungen*)	10,037
German Government Day-Bonds (*Tagesanleihe des Bundes*)	966
Borrowers' note loans *(Schuldscheindarlehen*)	9,091
of which:	
– From residents	9,053
– From non-residents	38
Other debt (1)	4,475
– Equalization claims	4,155
Repurchased debt	-58,451
Total	**1,086,311**

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

Source: Bundesministerium der Finanzen, Übersicht über den Stand der Schuld der Bundesrepublik Deutschland zum 30. Juni 2017 und 31. Dezember 2017 in Euro, Bundesanzeiger of February 2, 2018.

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
4.75% Bonds of the Federal Republic of 2003	4.75	2003	2034	20,000
4% Bonds of the Federal Republic of 2005	4	2005	2037	23,000
4.25% Bonds of the Federal Republic of 2007 (I)	4.25	2007	2039	14,000
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
1.5% Bonds of the Federal Republic of 2012	1.50	2012	2022	18,000
2.5% Bonds of the Federal Republic of 2012	2.50	2012	2044	22,000

2.5% Bonds of the Federal Republic of 2014	2.50	2014	2046	23,000
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
0.5% Bonds of the Federal Republic of 2015	0.5	2015	2025	23,000
1% Bonds of the Federal Republic of 2015	1	2015	2025	23,000
0.5% Bonds of the Federal Republic of 2016	0.5	2016	2026	26,000
0% Bonds of the Federal Republic of 2016	0	2016	2026	25,000
0.25% Bonds of the Federal Republic of 2017	0.25	2017	2027	26,000
0.5% Bonds of the Federal Republic of 2017	0.5	2017	2027	25,000
1.25% Bonds of the Federal Republic of 2017	1.25	2017	2048	4,000
Total Federal Bonds				**731,905**

(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	Year of issue	Maturity	Aggregate principal amount outstanding as of December 31, 2017
	(% per annum)			(EUR in millions)
1.75% Inflation-linked Bonds of the Federal Republic of 2009	1.75	2009	2020	16,000
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	9,500
0.10% Inflation-linked Bonds of the Federal Republic of 2015	0.10	2015	2026	12,000
0.10% Inflation-linked Bonds of the Federal Republic of 2015	0.10	2015	2046	6,500
Total Inflation-linked Securities				**75,000**

(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.

1.00% 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
0.00% Bonds of 2015-Series 171	0.00	2015	2020	20,000
0.25% Bonds of 2015-Series 172	0.25	2015	2020	19,000
0.00% Bonds of 2016-Series 173	0.00	2016	2021	21,000
0.00% Bonds of 2016-Series 174	0.00	2016	2021	19,000
0.00% Bonds of 2017-Series 175	0.00	2017	2022	18,000
0.00% Bonds of 2017-Series 176	0.00	2017	2022	17,000
Total Five-Year Federal Notes				**213,000**

(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	Aggregate principal amount outstanding as of December 31, 2017 (EUR in millions)
0.00% Notes of 2016	0.00	2016	2018	13,000
0.00% Notes of 2016 (II)	0.00	2016	2018	14,000
0.00% Notes of 2016 (III)	0.00	2016	2018	13,000
0.00% Notes of 2016 (IV)	0.00	2016	2018	13,000
0.00% Notes of 2017	0.00	2016	2019	13,000
0.00% Notes of 2017 (II)	0.00	2016	2019	13,000
0.00% Notes of 2017 (III)	0.00	2016	2019	13,000
0.00% Notes of 2017 (IV)	0.00	2016	2019	8,000
Total Federal Treasury Notes				**100,000**

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

	Interest Rate(3) (% per annum)	Year of Issue	Maturity	Aggregate principal amount outstanding as of December 31, 2017 (EUR in millions)
Treasury Discount Paper	-0.77 to -0.69	2017	2018	10,000

7. GERMAN GOVERNMENT DAY-BONDS

	Interest Rate (% per annum)	Year of Issue	Maturity	Aggregate principal amount outstanding as of December 31, 2017 (EUR in millions)
German Government Day-Bonds	variable, tied to EONIA	2008	unlimited	966

8. BORROWERS' NOTE LOANS (4)

	Interest Rate (% per annum)	Year of Issue	Maturity	Aggregate principal amount outstanding as of December 31, 2017 (EUR in millions)
Borrowers' note loans *(Schuldscheindarlehen)*	0.12% to 6.75%	1954 to 2014	2018 to 2037	9,091

(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.

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 9, 2018 (http://www.deutsche-finanzagentur.de/fileadmin/user_upload/finanzagentur/pdf/schuldenstand_jahresarchiv.pdf).

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	96,961	106,027
Contributions to international financing institutions	60,067	56,848
Co-financing of bilateral projects of German financial co-operation	17,556	13,285
Successor agencies to *Treuhandanstalt*	1,009	1,009
Interest compensation guarantees	10,000	8,000
Total guarantees pursuant to the 2010 German Budget Act	**359,142**	**363,023**
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	85,932	84,700
Total guarantees	**467,474**	**470,123**

(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—Financial 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."

Source: Bundesministerium der Finanzen, Finanzbericht 2018 (https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Wirtschafts_und_Finanzdaten/Finanzberichte/Finanzbericht-2018-anl.pdf?__blob=publicationFile&v=1), Overview 4, page 343.

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. During the last review in November 2015, it was decided that from October 2016 onwards, the Chinese currency renminbi will be a part of the SDR basket. With effect from October 1, 2016, the SDR basket consists of five currencies with the following weights: U.S. dollar (42%), euro (31%), Chinese renminbi (11%), Japanese yen (8%) and pound sterling (8%).

SUBSCRIPTIONS OR COMMITMENTS BY THE FEDERAL REPUBLIC
TO INTERNATIONAL FINANCIAL ORGANIZATIONS
AS OF END OF DECEMBER, 2017

Name of organization	Subscription or commitment by the Federal Republic (1)	Amount paid in
	(USD in millions)	
IMF (2)	37,930.8	37,930.8
International Bank for Reconstruction and Development (IBRD) (3)	11,650.2	717.9
International Development Association (IDA) (3)(4)	25,585.8	23,187.0
International Finance Corporation (IFC) (3)(4)	128.9	128.9
European Investment Bank (EIB) (5)	41,315.5	3,685
African Development Bank (AfDB) (3)	3,835.0	245.2
African Development Fund (AfDF) (3)	4,420.2	4,032.3
Asian Development Bank (AsDB) (3)	6,539.7	327.1
Asian Development Fund (AsDF) (3)	1,933.0	1,752.0
Inter-American Development Bank (IDB) (3)	3,368.7	242.3
Inter-American Investment Corporation (IIC) (3)	13.3	13.3
Fund for Special Operations (FSO) (3)	—	—
International Fund for Agricultural Development (IFAD) (3)	522.0	500.0
Caribbean Development Bank (CDB) (3)	106.6	23.5
Special Development Fund of the Caribbean Development Bank (SDF) (3)	110.3	100.1
European Bank for Reconstruction and Development (EBRD) (5)	3,066.0	639.5
Council of Europe Development Bank (CEB) (5)	1,098.3	121.9
Asia Infrastructure Investment Bank (AIIB) (3)	4,484.2	538.1

(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 1.4241.

(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 and the Ministry for Economic Cooperation and Development.

(4) Source: IFC and IDA: World Bank Corporate Secretariat, April 2018.

(5) Source: computation provided by the Ministry of Finance based on euro exchange rate of the European Central Bank at year-end 2017 of EUR 1 per USD 1.1993.

Group management report

KfW Group consists of KfW and four 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 Law Concerning KfW (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 small and medium-sized enterprises (SMEs), start-ups, innovation, environmental protection, the housing sector, infrastructure, education, export and project 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 through the international capital markets; KfW is one of the most active and largest bond issuers worldwide. In addition to KfW, the group's main operating subsidiaries are (i) KfW IPEX-Bank, which provides export and project finance, and (ii) DEG, which is active in promoting the private sector in developing countries and emerging economies.

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 industrial pollution control and corporate investments – Equity financing
Kommunal– und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	– Financing for housing construction and modernisation – Education finance – Infrastructure and social finance – Global funding of the promotional institutions of the federal states *(Landesförderinstitute)* – Individual financing of 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 line with German and European interests
Promotion of developing countries and emerging economies	– Promotion of developing countries and emerging economies 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)
Financial markets	– Securities and money market investments – Holding arrangements of 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

	31 Dec. 2017	31 Dec. 2016
	EUR in millions	EUR in millions
KfW, Frankfurt am Main, Germany	470,645	505,597
Subsidiaries		
KfW IPEX-Bank GmbH, Frankfurt am Main (KfW IPEX-Bank), Germany	26,362	30,561
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne (DEG), Germany	5,707	6,260
KfW Beteiligungsholding GmbH, Bonn, Germany	2,951	2,552
Interkonnektor GmbH, Frankfurt am Main, Germany	182	95
Investments accounted for using the equity method		
Microfinance Enhancement Facility S.A., Luxembourg (19.8%), Luxembourg	552	617
DC Nordseekabel GmbH & Co. KG, Bayreuth (50.0%), Germany	542	277
Green for Growth Fund, Southeast Europe S.A., Luxembourg (15.7%), Luxembourg	414	373
AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co KG, Munich (47.5%), Germany	174	193
coparion GmbH & Co. KG, Cologne (20.0%), Germany	14	6

[1)] tbg Technologie-Beteiligungs-Gesellschaft mbH was deconsolidated effective 31 December 2017.

The development of the 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 the overall bank level and serves as a central, binding reference for the strategic orientation of all business sectors, with a five-year horizon.

The **primary objective of all of KfW's market areas is promotion –** the heart of KfW's business activities – abiding by the fundamental principles of subsidiarity and sustainability. KfW addresses the primary objective of promotion largely by focusing its promotional activities on the socially and economically important megatrends of "climate change and the environment", "globalisation", "digitalisation and innovation", and "social change".

In relation to the "climate change and the environment" megatrend, KfW finances measures to support renewable energies, improve energy efficiency, safeguard biodiversity and prevent and/or reduce environmental pollution. To address the particular importance of this megatrend, KfW has set an environmental commitment ratio of around 35% of total promotional business volume. In the context of the "globalisation" megatrend, KfW contributes to strengthening the international competitiveness of German companies by granting loans for projects to secure Germany's supply of raw materials and in areas such as infrastructure and transport. The "digitalisation and innovation" megatrend reflects the importance of the increasing digitalisation that is critical to the German economy's success. Establishing the megatrend sets the standard for advancing and expanding targeted promotion in this area through suitable product approaches. Measures such as the planned expansion of domestic equity financing are a direct response to this megatrend. KfW's objective with respect to the "social change" megatrend is focused on the issues of demographic change in the stricter sense (e.g. age-appropriate infrastructure, follow-on financing) and vocational and further training. KfW's domestic commitment to meeting the challenges presented by the influx of refugees is also reflected in this megatrend. 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 four megatrends, such as combating poverty in developing countries.

Internal management system

KfW has a closely interlinked strategy and planning process. Conceived as a group-wide strategy process, group business sector planning is KfW Group's central planning and management tool. Group business sector planning consists of two consecutive sub-processes performed every year: strategic planning and operational planning. The overall strategy and planning process includes close communication between the employees responsible for planning in all areas including the Risk Controlling department.

The group-wide strategic objectives set by the Executive Board form the basis for the strategic planning. In particular, the system of objectives serves KfW Group as a clear roadmap, indicating the direction in which KfW would like to develop over the next five years. The system defines KfW Group's medium-term targeted positioning and sets top-level objectives at overall bank level. The strategic objectives are reviewed annually for topicality, completeness and aspiration level and adjusted where necessary – for example, due to changed parameters or newly determined focal areas. Efforts are made, however, to maintain a high degree of consistency to ensure that there are no fundamental changes made to strategic impetus in the course of the annual review. Strategic medium-term courses of action are developed by the business sectors in a base case within this strategic framework. Assumptions regarding to the future development of determining factors are made on the basis of assessments of risks and opportunities. This analysis takes into account both external factors (including market development, regulatory requirements, the competitive situation and customer behaviour) and internal factors and resources (including human, technical and organisational resources, promotional expense, primary cost planning and tied-up capital) as well as targeted earnings levels. It involves regular evaluation of the key business and revenue drivers for the business sectors and the group. The central departments (e.g. information technology, human resources and central services) play important roles in achieving the strategic objectives. By involving these departments, their own strategies are aligned with the strategic objectives. The first regular capital budgeting in the base and stress case will be undertaken on a multi-year horizon on the basis of the strategic business sector planning. This enables early identification of any capital bottlenecks arising from strategic assessment or changed parameters and counteraction to be taken by resolution of relevant measures. Cost planning and full-time equivalent (staff) planning are conducted in parallel to strategic planning for all business sectors for the entire planning period. The underlying assumptions are reviewed annually via a rolling planning process. The Executive Board defines business sector objectives for all sectors in the form of guidelines (with regard to operations, risk and budget) for the entire planning period on the basis of the group-wide strategic assessment.
Strategic group-level planning was expanded this year to include business strategy scenario analysis. Scenario analysis is a "what if" analysis of a specific but plausible scenario, looking at the interaction of external influencing factors. The results of this analysis are then translated into management-relevant parameters in the new business, earnings and risk/capital dimensions. Such scenarios assist the process of identifying potential risks and opportunities for promotional targets and KfW's profitability and risk-bearing capacity, thus facilitating the inclusion of these factors in the further planning process.

In operations planning, the business sectors plan their new business, risks and earnings, and all departments of the bank plan their budgets based on the guidelines issued by the Executive Board, taking into account any changes in external or internal factors. These plans are checked for consistency with the group's and business sectors' strategic planning. The forecast interest rate development is a key factor in KfW's earnings position. Thus, a high and a low interest rate scenario are also examined in addition to the anticipated base case. The plans are also assessed for future risk-bearing capacity in a second round of regular capital budgeting over a multi-year horizon. The Executive Board either approves the resultant operating budget or has plans fine-tuned in a revision round. The external assumptions underlying the plans are also checked at this stage. The operational planning process ends when the Executive Board has adopted a final budget for the entire planning period, including the future capital requirement.

The key conclusions from the planning process are incorporated into the business and risk strategies. The management has overall responsibility for formulating and adopting both strategies. The business strategy comprises the group's strategic objectives for its main business activities as well as important internal and external factors, which are included in the strategy business strategy are subject to consultation with the Risk Controlling department in order to ensure consistency between the business and risk strategy.

The Executive Board draws up the operating budget for the entire planning period, including any future capital requirement as well as the business and risk strategy. The budget is then presented to the supervisory body (Board of Supervisory Directors) for approval, along with the business and risk strategy for discussion. After the Board of Supervisory Directors decided on the business and risk strategy, it is appropriately communicated to the staff.

When the group business sector planning is approved, this establishes the group's qualitative and quantitative objectives. The Executive Board reviews achievement of these objectives as part of controlling on both a regular and an ad hoc basis during the current financial year. The assumptions concerning external and internal factors made when determining the business strategy are also subject to regular checks. The development of relevant control variables, their attainment, and the cause of any failure in this respect are analysed as part of strategic controlling. Strategic assumptions are reviewed and a systematic planned vs actual comparison of early objectives and forecasts is performed at the beginning of every year. Experience gained from this comparison is incorporated into the next planning process.

consideration in business sector planning. Ad hoc issues of strategic relevance are also addressed in consultation with the group's departments. Recommendations for action concerning potential strategy adjustments or optimising the use of resources are made to the Executive Board by means of the strategic performance report. The results of the analysis are included in further strategy discussions and strategic planning processes. The achievement of objectives is regularly monitored by the Board of Supervisory Directors based on reports submitted under KfW Bylaws. The commentary in these reports outlines analyses of causes and any potential plans for action. Comprehensive and detailed reports are prepared on a monthly or quarterly basis as part of operational controlling. These comprehensive detailed analyses at group, business sector and/or product group level comprise earnings, cost and full-time equivalent (staff) developments and are reported to specific departments. Additionally, complete analyses of significant relevance to overall group performance are also presented directly to the Executive Board. The risk controlling function has been implemented alongside strategic and operational controlling. Early warning systems have been established and mitigation measures defined for all material risk types in line with the risk management requirements set out in the risk strategy. All controlling and monitoring approaches are integrated into regular and comprehensive risk reporting.

Alternative key financial figures used

The KfW Group Management Report contains key financial figures that are not determined in accordance with IFRS. KfW uses key financial figures in its strategic objectives that reflect the status of promotion as the core business activity. It also uses key figures that exclude any temporary effects on results determined and reported in the consolidated financial statements in accordance with IFRS, which are not considered representative by KfW.

KfW has defined the following alternative key financial figures:

Promotional business volume

Promotional business volume refers to the commitments of each business sector during the reporting period. In addition to the lending commitments shown in the statement of financial position, promotional business volume comprises loans from Federal Government funds for promotion of developing countries and emerging economies – which are accounted for as trust activities – financial guarantees, equity financing and securities purchases in certain asset classes (green bonds, SME loan securitisation). Promotional business volume also includes grants committed as part of development aid and in domestic promotional programmes. Allocation to promotional business volume for the current financial year is generally based on the commitment date of each loan, financial guarantee and grant, and the transaction date of the equity finance and securities transactions. Allocation of global loans to the promotional institutions of the federal states (*Landesförderinstitute – "LFI"*) and BAföG government loans is, however, based on individual drawdown volume and date, instead of the total volume of the contract at the time of commitment. Financing amounts denominated in foreign currency are translated into euros in the lending business at the exchange rate on the commitment date, and in the securities and equity finance business generally at the rate on the transaction date.
See the "Development of KfW Group" economic report or segment reports for a breakdown of promotional business volume by individual segment.

achievement of KfW's promotional objectives.

The key component of KfW's promotional expense comprises interest rate reductions accounted for at present value. KfW grants these reductions for certain domestic promotional loans for new business during the first fixed interest rate period in addition to passing on KfW's favourable funding conditions. The difference between the fair value of these promotional loans and the transaction value during the first fixed interest rate period, due to the interest rate being below the market rate, is recognised in profit or loss as an interest expense and accounted for as an adjustment to the carrying amount under the items Loans and advances to banks or Loans and advances to customers. In addition, the amount by which interest rate reductions are compounded over the fixed interest rate period is recognised in Net interest income through profit or loss (see the relevant Notes on KfW's promotional lending business, loans and advances to banks or customers, and provisions).

As of financial year 2017, promotional components in Commission expense exclusively comprise upfront fees paid to sales partners for processing microloans. Promotional expenses from KfW's one-time financing share in the advisory programme newly launched by the Federal Office of Economics and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle – "BAFA"*) to promote entrepreneurial knowledge and skills were also included in the comparative figures for the previous year. Promotional expense also contains disposable and product-related marketing and sales expenses (Administrative expense).

Cost-income ratio (before promotional expense)

The cost-income ratio (before promotional expense) comprises Administrative expense (excluding promotional expense) in relation to Net interest income and Net commission income before promotional expense.

promotional expense from the numerator (Administrative expense) and denominator (Net interest income and Net commission income). Promotional expense is managed separately and independently via own budgets.

Consolidated profit before IFRS effects

Consolidated profit before IFRS effects from hedging is another 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 the 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 in financial terms.

As a result, the following reconciliations were performed by eliminating temporary contributions to income 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 funding including 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.

The **global economy** accelerated considerably in 2017, ending the downward growth trend that had persisted since 2011. The industrialised nations, developing countries and emerging economies all contributed to this. Preliminary figures show that more than half of all countries worldwide increased their growth rate year-on-year. After a weak start, the US economy performed very robustly, and the Japanese economy also grew more strongly than had been expected at the start of the year. The Chinese economy put in a strong performance, benefiting from policies implemented in the previous year. Inflationary pressure was only modest. Along with favourable financing conditions worldwide, this helped to underpin global growth. Over the course of the year, there was an easing of the uncertainty surrounding the political stability of the European Union, the direct consequences of the Brexit decision and the political stance of the new US administration especially on trade-related issues. As a result, world trade grew more strongly than in recent years, supported by a continuing recovery of investment activity in industrialised countries and emerging economies.

Economic performance in the member states of the **European Economic and Monetary Union (EMU)** surprisingly improved with the strongest growth since 2007. Overall, economic output in EMU member states rose by 2.5% year-on-year in 2017. The growth rate was thus also higher than KfW expected a year ago. Growth now has a broad foundation, both in terms of regions and the sources of demand. Consumer spending reaffirmed its role as a dependable pillar of growth, driven by the continuing improvement on labour markets and the associated rise in incomes. An additional boost was provided especially by the upturn in global trade, from which the European economy was also able to benefit despite the appreciation of the euro over the course of the year. With political risks subsiding as the year progressed and supported by a tailwind from foreign trade, corporate sentiment significantly improved, causing companies to overcome their reluctance to invest and make greater use of the favourable financing conditions.

Germany grew strongly by 2.2% in 2017 according to preliminary estimates by the German Federal Statistical Office, thus outpacing the growth recorded in 2016 (1.9%). A year ago, KfW predicted that economic growth would slow to 1.3% in 2017. Like almost all forecasters, it thus underestimated the actual development of gross domestic product. The 2017 publicly available economic growth forecasts at the end of 2016 ranged from 0.9% to 1.7%. The main reason for what later proved to be overly cautious growth expectations for 2017 was the view taken on the prevailing political uncertainty. Given Germany's export focus, KfW expected that the uncertain consequences of the Brexit vote and the risk of a less open system of world trade following US policy would permit only a moderate increase in corporate investment. This despite generally favourable conditions for investment, such as the already very high utilisation of industrial capacity. In fact, however, the impact of these risks on corporate investment was far less than feared. Private sector investments in equipment actually accelerated in 2017. Residential construction and consumer spending remained on their clear upward trajectory and made a substantial contribution to the year's strong growth. With growth in both exports and imports increasing, net exports provided only a slight stimulus to economic growth.

The **financial markets** presented a favourable picture overall in 2017 and were spared from turbulence. The strong stock market performance on both sides of the Atlantic was notable. There was little price fluctuation and volatility indices were at historically low levels. Optimism among equity investors was fed by surprisingly strong global economic growth combined with a continuation of a highly expansionary monetary policy by the major central banks. This policy kept interest rates especially in Europe and Japan at extremely low levels. International investors also showed growing interest in euro zone investments again in 2017. One significant trigger for this was the victory by the pro-European candidate Emmanuel Macron in the French presidential elections. Investor sentiment was boosted once again at the end of the year by the passing of the US tax reform bill. The crude oil price also rose substantially in 2017, which is likely to have fuelled higher growth in oil-exporting countries and thus bolstered the world economy as a whole.

In 2017, the European Central Bank began a gradual withdrawal from its unconventional monetary policy by reducing the volume of its monthly bond purchases from EUR 80 to EUR 60 billion from April onwards. Amid steadier inflation and strong growth, it decided in the autumn to halve its bond purchases from January 2018 onwards and to maintain this level until at least September 2018. At the same time, it repeatedly indicated in 2017 that it will not raise interest rates until well after the bond purchasing programme has ended. Against this backdrop, money market rates in the euro zone remained at historically low levels (and in negative territory), while the capital market experienced slight rate increases. Yields on ten-year German government bonds in 2017 were up by an average of approximately 24 basis points year-on-year and stood at 0.43% at year-end. Averaged over the year, the yield curve steepened considerably, which noticeably benefited bank stocks. From early 2017, the ECB began for the first time to buy bonds with yields below the ECB deposit rate of –0.40%, which partly were no longer replaced by new purchases. On the US sovereign bond market, yields increased mainly for short-term bonds. Market participants believed that, although the Fed would conduct several rate hikes in the near term, it would struggle to raise key rates beyond the region of 2% in the medium term given the advanced stage of the business cycle. This resulted in

rediscovery of the euro zone by international investors following the positive outcome of the French presidential elections. From this point in time, the EUR/USD rate rose significantly before consolidating in the autumn. The average for the year of 1.13 in 2017 was slightly up on the previous year's rate of 1.11.

Development of KfW Group

2017 was an encouraging financial year for KfW. The plans and strategic objectives for the positioning targeted in the medium term were achieved overall. With a **promotional business volume** of EUR 76.5 billion (2016: EUR 81.0 billion), it was also a very positive and successful year in promotional terms. KfW made a key contribution to addressing current economic and social challenges with its promotional products. Promotional activities focused on the socially and economically significant megatrends of "climate change and the environment", "globalisation", "digitalisation and innovation", and "social change".

The **earnings position** remained very satisfactory in financial year 2017. As expected, consolidated profit fell short of the high prior-year figure, which had been boosted by non-recurring effects. However, it was still well above the long-term earnings potential. The operating result before valuation (before promotional expense) was down compared to the previous year at EUR 1.7 billion (2016: EUR 1.9 billion). The cost-income ratio (before promotional expense) increased to 42.6% (2016: 38.4%) due to decreasing interest income and increasing administrative costs, which were attributable in particular to the modernisation of KfW Group and measures addressing regulatory requirements, such as KfW's mandatory application, by analogy, of the German Banking Act (*Gesetz über das Kreditwesen – "KWG"*). The valuation result made a positive and larger-than-expected contribution to consolidated profit. In net terms, however, it was down year-on-year. This was partially due to the increased though still substantially lower-than-planned net charges from risk provisions for lending business and in part to negative exchange rate-induced effects in the equity investment portfolio. The strong consolidated profit of EUR 1.4 billion was down year-on-year (2016: EUR 2.0 billion) but exceeded projections. Consolidated profit adjusted for IFRS effects from hedging was EUR 1.2 billion (2016: EUR 1.8 billion). This result shows that KfW is stabilising its capital base, thereby safeguarding its promotional capacity in the long term and ensuring it can meet regulatory requirements. In its current consolidated income projections for 2018, KfW expects a consolidated profit before IFRS effects of around EUR 0.9 billion, which is at the lower end of the range of strategic projections.

Consolidated total assets fell by EUR 34.7 billion to EUR 472.3 billion in 2017. This decline was attributable to a reduction of EUR 24.9 billion in the carrying amount of derivatives designated for hedging purposes and a decrease of EUR 11.3 billion in liquidity held (EUR 33.8 billion). KfW's promotional business is primarily funded through the international capital markets. The volume of own issues reported under certificated liabilities amounted to EUR 406.3 billion (year-end 2016: EUR 422.6 billion). The EUR 1.7 billion increase in equity to EUR 28.7 billion was especially due to consolidated comprehensive income.

Business performance in 2017 was largely characterised by the following developments:

KfW's domestic promotional business looks back on a highly successful financial year 2017 with a promotional business volume of EUR 51.8 billion (2016: EUR 55.1 billion). This mainly reflects the high demand for investment loans for business energy efficiency, digitalisation and innovation, as well as the continued high

projects.

KfW raised EUR 78.2 billion in the international capital markets to fund its business activities (2016: EUR 72.8 billion).

Promotional business volume of KfW Group

	2017 EUR in billions	2016 EUR in billions
Domestic business	**51.8**	**55.1**
Mittelstandsbank (SME Bank)	21.9	21.4
Kommunal– und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	29.9	33.7
Financial markets	**1.5**	**1.3**
International business	**23.5**	**24.9**
Export and project finance	13.8	16.1
Promotion of developing countries and emerging economies	9.8	8.9
Volume of new commitments[1)]	**76.5**	**81.0**

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

B. Operating result slightly below expectations

At EUR 1,661 million (2016: EUR 1,898 million), the operating result before valuation (before promotional expense) was below the prior-year level. Net interest income (before promotional expense) based on continued favourable funding conditions for KfW remained the main source of income. It declined slightly to EUR 2,579 million (2016: EUR 2,802 million).

Net commission income (before promotional expense) stood at EUR 316 million, which was higher than the previous year's level (2016: EUR 280 million).

At EUR 1,234 million (2016: EUR 1,185 million), Administrative expense (before promotional expense) increased slightly and were in line with the targets overall. The decisive factor for this slight increase were extensive investments in modernising KfW Group.

C. Positive valuation result continues to benefit from low risk provisions

Charges arising from risk provisions for lending business totalled EUR 209 million in 2017. This was still significantly below the projected standard risk costs but above the prior-year figure (2016: EUR 150 million).
The purely IFRS-induced effects from the valuation of derivatives designated for hedging purposes remained relatively stable compared to the previous year at EUR 235 million (2016: 233 million). The EUR 19 million reduction in earnings caused by the equity investment portfolio (2016: contribution of EUR 98 million to earnings) largely resulted from the Promotion of developing countries and emerging economies business sector. In the DEG portfolio, negative exchange rate-induced effects more than offset the positive performance, producing a net result of EUR –61 million.

In the securities portfolio, the result was almost unchanged at EUR 8 million (2016: EUR 9 million).

Key financial figures of KfW Group

Key figures of the income statement	2017 EUR in millions	2016 EUR in millions
Operating result before valuation (before promotional expense)	1,661	1,898
Operating result after valuation (before promotional expense)	1,669	2,108
Promotional expense	213	230
Consolidated profit	1,427	2,002
Cost-income ratio before promotional expense[1)]	42.6%	38.4%

Key economic figures	2017 EUR in millions	2016 EUR in millions
Consolidated profit before IFRS effects	1,192	1,769

Key figures of the statement of financial position	31 Dec. 2017 EUR in billions	31 Dec. 2016 EUR in billions
Total assets	472.3	507.0
Volume of lending	471.7	472.4
Volume of business	572.2	609.2
Equity	28.7	27.1
Equity ratio	6.1%	5.3%

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

	EUR in millions	Promotional expense EUR in millions	EUR in millions	
Net interest income (before promotional expense)	2,579	–186	2,393	Net interest income
Net commission income (before promotional expense)	316	–14	303	Net commission income
Administrative expense (before promotional expense)	1,234	14	1,247	Administrative expense
Operating result before valuation (before promotional expense)	**1,661**	**–213**	**1,448**	**Operating result before valuation**
Risk provisions for lending business	–209		–209	Risk provisions for lending business
Net gains/losses from hedge accounting	591		591	Net gains/losses from hedge accounting
Other financial instruments at fair value through profit or loss	–397		–397	Net gains/losses from other financial instruments at fair value through profit or loss
Net gains/losses from securities and investments	0		0	Net gains/losses from securities and investments
Net gains/losses from investments accounted for using the equity method	22		22	Net gains/losses from investments accounted for using the equity method
Operating result after valuation (before promotional expense)	**1,669**	**–213**	**1,456**	**Operating result after valuation**
Net other operating income	–2		–2	Net other operating income
Profit/loss from operating activities (before promotional expense)	**1,667**	**–213**	**1,453**	**Profit/loss from operating activities**
Promotional expense	213	–213	0	–
Taxes on income	26		26	Taxes on income
Consolidated profit	**1,427**		**1,427**	**Consolidated profit**
Temporary net gains/losses from hedge accounting	–235		–235	Temporary net gains/losses from hedge accounting
Consolidated profit before IFRS effects	**1,192**		**1,192**	**Consolidated profit before IFRS effects**

promotional expense)	[illegible]	[illegible]	[illegible]	Net commission income
Administrative expense (before promotional expense)	1,185	14	1,199	Administrative expense
Operating result before valuation (before promotional expense)	**1,898**	**–230**	**1,668**	**Operating result before valuation**
Risk provisions for lending business	–150		–150	Risk provisions for lending business
Net gains/losses from hedge accounting	294		294	Net gains/losses from hedge accounting
Other financial instruments at fair value through profit or loss	55		55	Net gains/losses from other financial instruments at fair value through profit or loss
Net gains/losses from securities and investments	–10		–10	Net gains/losses from securities and investments
Net gains/losses from investments accounted for using the equity method	21		21	Net gains/losses from investments accounted for using the equity method
Operating result after valuation (before promotional expense)	**2,108**	**–230**	**1,878**	**Operating result after valuation**
Net other operating income	102		102	Net other operating income
Profit/loss from operating activities (before promotional expense)	**2,210**	**–230**	**1,980**	**Profit/loss from operating activities**
Promotional expense	230	–230	0	–
Taxes on income	–21		–21	Taxes on income
Consolidated profit	**2,002**		**2,002**	**Consolidated profit**
Temporary net gains/losses from hedge accounting	–233		–233	Temporary net gains/losses from hedge accounting
Consolidated profit before IFRS effects	**1,769**		**1,769**	**Consolidated profit before IFRS effects**

At EUR 1,661 million (2016: EUR 1,898 million), the **Operating result before valuation (before promotional expense)** was slightly below both the prior-year figure and the target.

At EUR 2,579 million, **Net interest income (before promotional expense)** declined slightly compared to 2016 (EUR 2,802 million). This was partly because the grant received in previous years for ERP economic promotion (2016: EUR 98 million) was no longer awarded in 2017. In addition, lower income from early repayment penalties of EUR 123 million (2016: EUR 154 million) and changes to the contractual terms of the Energy-efficient Construction and Refurbishment promotional programmes as of 1 July 2017, which meant that the remuneration of EUR 34 million was recognised in Net commission income, led to a decline in interest income. Unrelated to these developments, interest margins in the lending business remained stable. Due to its top-notch credit rating, KfW's funding conditions on the capital and money markets also remained very good and made a substantial contribution to net interest income. Overall, Net interest income remained the main source of income.

Net commission income (before promotional expense) was EUR 316 million, which is considerably higher than the 2016 figure of EUR 280 million. The increase was mainly due to remuneration received for the Energy-efficient Construction and Refurbishment programmes of EUR 74 million (2016: EUR 35 million) and a rise in loan processing fees to EUR 120 million (2016: EUR 98 million). KfW also generated commission income totalling EUR 180 million (2016: EUR 175 million) from the administration of German Financial Cooperation in the business sector Promotion of developing countries and emerging economies, which was offset by related Administrative expense.

The increase in **Administrative expense (before promotional expense)** to EUR 1,234 million (2016: EUR 1,185 million) was in line with expectations overall. The main factors driving this increase remain the measures connected with the mandatory application of the KWG and the extensive investments in modernising the group. Personnel expense increased by EUR 34 million to EUR 668 million (2016: EUR 634 million). In addition to the higher number of employees, this was also due to negotiated pay increases. Non-personnel expense (before promotional expense) amounted to EUR 566 million (2016: EUR 550 million). The increase of EUR 15 million was due in particular to the use of consultancy and support services. These services related to, in particular, the necessary fulfilment of regulatory requirements and the comprehensive modernisation of KfW's information technology architecture, which will continue to be pursued intensively over the coming years. This extensive project

KfW Group's **Risk provisions for lending business** resulted in charges of EUR 209 million (2016: EUR 150 million). Though these were up year-on-year, they were still significantly below the projected standard risk costs. The expenses resulting from risk provisions for lending business largely related to the business sector Export and project finance as well as education financing in the business sector Kommunal- und Privatkunden-bank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions).

At EUR 316 million, net additions to the provision for imminent credit risks including direct write-offs declined year-on-year (2016: EUR 381 million) and primarily related to the business sector Export and project finance with additions of EUR 147 million (2016: EUR 192 million). Thereof, EUR 61 million was attributable to the Maritime Industries segment. In the previous year, this segment recorded net additions of EUR 195 million in the course of portfolio adjustments. The domestic promotional business experienced an increase in net additions to EUR 128 million (2016: EUR 81 million), attributable in equal parts to the Mittelstandsbank (SME Bank) and Kommunalund Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) business sectors.
At EUR 107 million, income from recoveries of loans previously written off almost halved year-on-year (2016: EUR 216 million). Thereof, EUR 40 million was attributable to the business sector Mittelstandsbank (SME Bank) (2016: EUR 36 million) and EUR 43 million to the business sector Export and project finance (2016: EUR 61 million). The risk provisions declined from EUR 1.1 billion in 2016 to EUR 1.0 billion in 2017. Of this total, EUR 0.4 billion was attributable to the Export and project finance business sector and EUR 0.3 billion to the Promotion of developing countries and emerging economies business sector.

In 2017, risk provisions for loan portfolio risks which were not yet allocable remained almost unchanged 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 through profit or loss stood at EUR 194 million (2016: EUR 349 million) and in 2017 were primarily driven by negative effects from the equity investment portfolio and high positive purely IFRS-related effects from the valuation of derivatives used for hedging purposes.
The equity investment portfolio measured at fair value through profit or loss was influenced by the positive performance of

combined with the corresponding foreign currency items in the consolidated statement of financial position.

Hedge accounting and borrowings recognised at fair value, including derivatives designated for hedging purposes resulted in net gains of EUR 235 million (2016: EUR 233 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 the net gain or loss that fully reverse over the term of the transaction.

There were **Net gains from securities and investments accounted for using the equity method** of EUR 22 million (2016: EUR 11 million).

Securities not carried at fair value through profit or loss had a positive earnings contribution of EUR 9 million (2016: EUR 12 million).

The general development of financial markets led to an increase in the value of securities not recognised through profit or loss of EUR 44 million (2016: increase in value of EUR 59 million), which were recognised in equity under Revaluation reserves. This was primarily due to the contributions of European covered bonds. Moreover, the net positive difference between the carrying amount and the fair value for those securities not carried at fair value rose by EUR 12 million to EUR 67 million as of 31 December 2017 (2016: increase of EUR 36 million). This was attributable to, among other things, the reversal of impairment losses on securities from securities-based lending. By contrast, equity investments not carried at fair value through profit or loss resulted in charges amounting to EUR 9 million (2016: EUR 22 million).

The group generated a positive result of EUR 22 million (2016: EUR 21 million) from investments accounted for using the equity method. The performance of DC Nordseekabel GmbH & Co. KG in the business sector Export and project finance constituted a particularly strong contribution to earnings.

Net other operating income was EUR –2 million in 2017. This was a significant decrease compared to last year's figure (2016: EUR 102 million). However, the prior-year figure was influenced by income of EUR 100 million from a waiver of the repayment of a part of the subordinated loan granted by the ERP Special Fund. Contractual changes meant that this income was not

The key component of KfW's promotional expense comprises interest rate reductions. KfW grants these for certain domestic promotional loans during the first fixed interest rate period in addition to passing on KfW's favourable funding conditions, thus affecting its earnings position. The volume of interest rate reductions provided fell slightly to EUR 186 million in 2017 (2016: EUR 193 million). This was partly due to a demand-induced decline in the volume of interest rate-reduced promotional loans. The persistently low interest rates also reduced the potential to stimulate the promotional business with additional reductions.

Moreover, promotional expenses, as reported in Net commission income and Administrative expense, were incurred in the amount of EUR 27 million (2016: EUR 37 million). This activity aimed, among other things, at better and more targeted sales for KfW's promotional products.

Taking into account taxes on income (EUR 26 million), a **Consolidated profit** of EUR 1,427 million was recorded, which was below that of the previous year (EUR 2,002 million) but far exceeded expectations.

eliminating temporary contributions to net gains in the amount of EUR –235 million (2016: EUR –233 million) as follows:

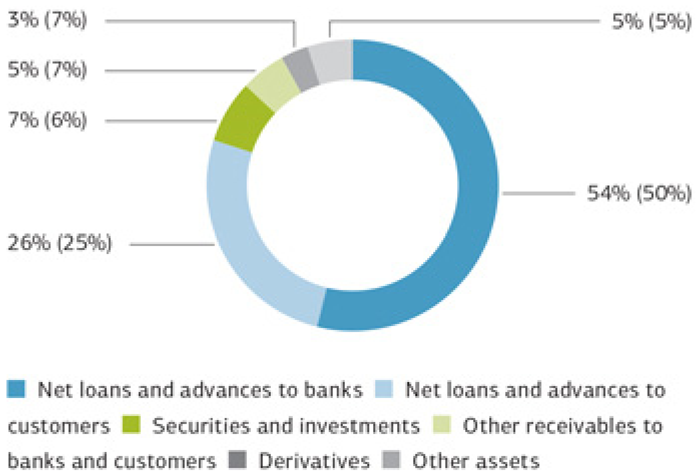
- Valuation results from micro and macro hedge accounting. All hedging relationships are economically effective and do not give rise to any net gain or loss over the entire life of the hedge.
- Net gains or losses from the use of the fair value option to avoid an accounting mismatch in the case of funding including 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.

The reconciled earnings position amounted to a profit of EUR 1,192 million (2016: EUR 1,769 million). KfW Group achieved a good result in financial year 2017 that continued to exceed its sustainable earnings potential.

Development of net assets

Lending to banks and customers has remained KfW Group's core business. As of 31 December 2017, a total of 80% of KfW Group's assets was attributable to its lending business.

Assets
31 Dec. 2017 (31 Dec. 2016)



Loans and advances	[illegible]	[illegible]	[illegible]
Risk provisions for lending business	–1,457	–1,610	153
Net loans and advances	**376,979**	**376,262**	**717**
Contingent liabilities from financial guarantees	2,229	2,647	–418
Irrevocable loan commitments	80,032	80,410	–378
Loans and advances held in trust	12,433	13,073	–641
Total	**471,673**	**472,392**	**–720**

Loans and advances increased slightly in 2017 due to various effects. Disbursements in new lending business more than offset unscheduled loan repayments of EUR 13.4 billion (2016: EUR 12.8 billion) and exchange rate effects resulting particularly from the weaker US dollar. At EUR 377.0 billion, Net loans and advances represented 80% of lending volume (year-end 2016: 80%).

Contingent liabilities from financial guarantees declined from EUR 2.6 billion in 2016 to EUR 2.2 billion in 2017. Irrevocable loan commitments at EUR 80.0 billion were at the same level as in the previous year. 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 slightly by EUR 0.6 billion to EUR 12.4 billion.

At EUR 23.8 billion, Other loans and advances to banks and customers were considerably below the previous year's amount of EUR 34.8 billion. This item in particular includes short-term secured and unsecured investments held for general liquidity management purposes and in connection with collateral management in the derivatives business. The decline mainly affected short-term, collateralised investments.

The total amount of securities and investments at EUR 33.6 billion was at the previous year's level.

Securities and investments

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Bonds and other fixed-income securities	30,900	30,118	782
Shares and other non-fixed income securities	0	1	–1
Equity investments	2,672	2,595	77
Shares in non-consolidated subsidiaries	43	0	43
Total	**33,615**	**32,715**	**900**

primarily used to hedge refinancing transactions, decreased by EUR 20.6 billion, from EUR 34.8 billion to EUR 14.2 billion, mainly due to changes in market parameters. In addition to these changes, the decline was also attributable

9.6 billion.

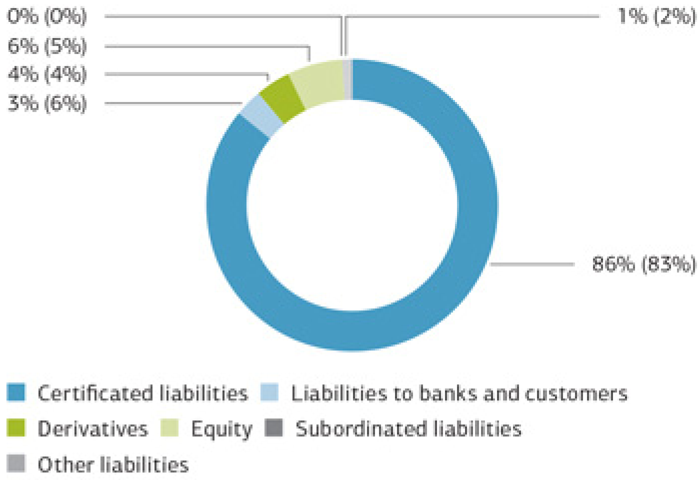
There were only minor changes in the other asset line items in the statement of financial position.

Development of financial position

KfW Group's funding strategy in the international capital markets is based on three pillars: "benchmark bonds in euros and US dollars", "other public bonds" and "private placements". Funds raised in the form of certificated liabilities continued to play a key role, with a share of 86% of total assets, representing an increase over the previous year (83%).

Financial position

31 Dec. 2017 (31 Dec. 2016)



Borrowings decreased by EUR 32.1 billion, to EUR 422.2 billion.

Borrowings

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Short-term funds	40,497	49,736	–9,239
Bonds and notes	366,105	375,483	–9,379
Other funding	15,563	28,806	–13,243
Subordinated liabilities	0	200	–200
Total	**422,164**	**454,225**	**–32,061**

liabilities to the Federal Republic of Germany and cash collateral received primarily to reduce counterparty risk from the derivatives business of EUR 4.2 billion (year-end 2016: EUR 17.8 billion).

liabilities with a balance of EUR 0.2 billion.

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

At EUR 28.7 billion, **equity** was above the level of 31 December 2016 of EUR 27.1 billion. This increase was largely due to the consolidated profit (EUR 1.4 billion) and the measurement of equity investments at fair value, recognised directly in equity (EUR 0.2 billion). The increase in equity combined with a reduction in total assets led to an improvement in the equity ratio from 5.3% at the end of 2016 to 6.1% as of 31 December 2017.

Equity

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Paid-in subscribed capital	3,300	3,300	0
Capital reserve	8,447	8,447	0
of which promotional reserves from the ERP Special Fund	*7,150*	*7,150*	*0*
Reserve from the ERP Special Fund	1,191	1,191	0
Retained earnings	15,500	14,092	1,407
Fund for general banking risks	600	600	0
Revaluation reserves	–295	–576	281
Total	**28,742**	**27,055**	**1,688**

The consolidated profit was allocated to Retained earnings.

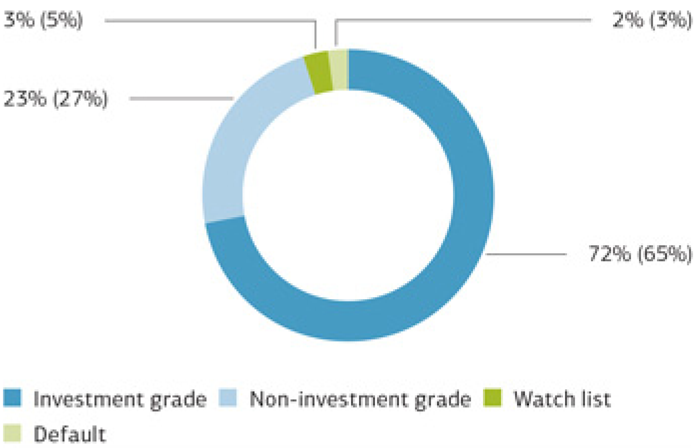
Risks are reported in accordance with KfW Group's internal risk management. The key risk indicators are presented below:

Regulatory capital ratios remain at a good level

KfW obtained regulatory approval from BaFin to measure material portfolio segments using the advanced internal ratings-based (IRB) approach, with effect from 30 June 2017. The decline in the capital ratio is primarily due to transition effects resulting from the previous use by analogy of the IRB approach for internal purposes.

Credit risk: Good credit quality structure maintained

2017 (2016) Net exposure breakdown



In 2017, the share of investment grade net exposure comprised 72% of the total net exposure. Risk provisions (specific and portfolio valuation allowances, loan loss provisions) declined slightly to EUR 1.5 billion (31 Dec. 2016: EUR 1.7 billion).

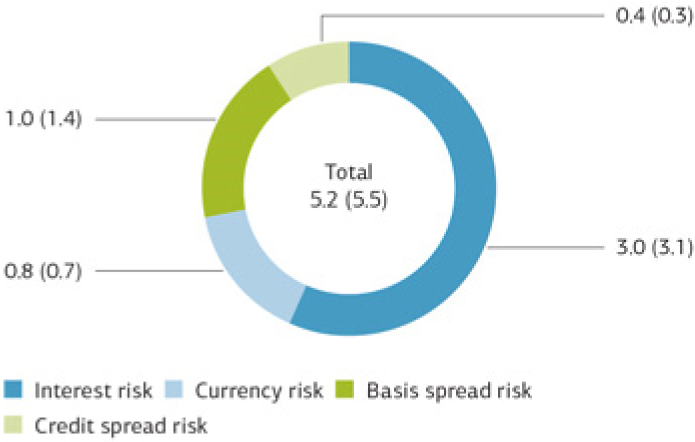
Economic risk-bearing capacity: Clearly secured

EUR in billions

The excess coverage was reduced due to a higher total capital requirement. Overall, risk-bearing capacity is clearly secured at a solvency level of 99.99%.

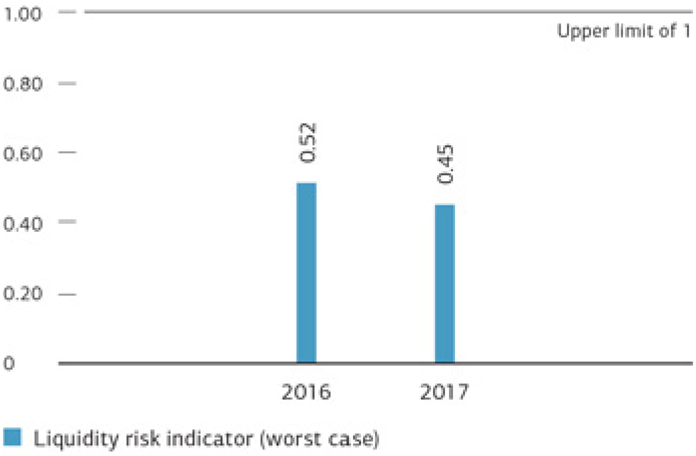
Market price risks: Slight decrease in capital requirement

2017 (2016), ECAP EUR in billions



The capital requirement for market price risks declined slightly year on year. This was primarily due to a reduced ECAP requirement for basis spread risk, which was offset by the increased capital requirement for currency and credit spread risk.

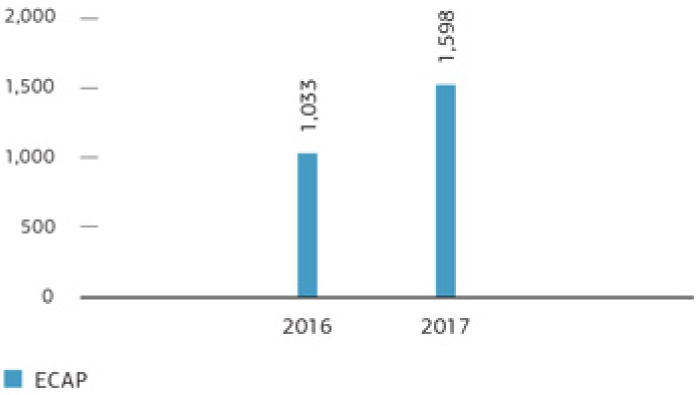
Liquidity risk: Situation remains comfortable



The liquidity risk indicators remained considerably below the internal limit throughout 2017.

Operational risk: Significant increase in capital requirement

EUR in millions



Individual losses and updated risk scenarios led to a higher economic capital requirement in 2017.

Current developments

The global economy recorded real growth of over three percent for the fifth consecutive year in 2017, and momentum actually increased year on year. This relatively healthy development was a result of the broadly stable economic trend overall in many industrialised countries and emerging economies. While industrialised nations such as the USA, Canada, the Euro area and Japan posted significant increases in growth, the UK suffered a slowdown in growth – as was expected following the Brexit vote – although the country is still far from the recession forecast by many economists. Moreover, the current situation is not solely a result of the Brexit vote or the uncertainties caused thereby, but is also due to familiar problems such as the traditional twin deficit (concurrent budget and current account deficit) and the comparatively weak international competitiveness in the industrial sector. The key factor for the economic future of the UK, aside from the new relationship between the country and the EU, will be the necessary reorientation of the British economy. As for the large emerging economies, China and India more or less maintained their high level of growth of the previous year and Brazil and Russia came out of their recessions, while South Africa remained close to economic stagnation. Positive sentiment among consumers and businesses generated and buoyed by impetus from economic policy along with increased industrial production and a recovery in trade served to secure growth on a broad base in many countries. Growth expectations in the base scenario remain positive for 2018, as current sentiment indicators and new orders suggest that economic performance in many industrialised countries and emerging economies will remain stable and broadbased.

However, the improved growth momentum in 2017 should not disguise the fact that economic performance was restrained compared to previous upswing periods. Despite the evident improvements, the after-effects of the financial crisis are still noticeable in 2017 in the areas of productivity, investment, wage development and trade. The higher economic momentum in the industrialised nations was largely supported by the continuing expansionary monetary policy and increasingly also by an easing of fiscal policy. The downside to this economic policy is the steady rise in risks to be seen in the financial markets, because the long period of low interest rates has both increased risk tolerance and caused asset prices to climb, particularly in the residential property markets. Growth development, and thus the recovery process in the emerging economies and developing countries as well, where growth is still weaker than in the past, is being inhibited by reduced or delayed reform efforts and increasing financial risks as result of a rising debt load (primarily in China).

KfW Group observes and assesses these trends on a continuous basis. The downward adjustments to the country risk assessment in 2017 again mainly concerned countries that are highly vulnerable to external shocks (exporters of commodities, above all) and those with significantly increased political risks.

well under book value. Despite this, the situation for Italian banks remained difficult. Several large banks had to be bailed out because of the oppressive problem loans. The government intervened directly to prevent losses for senior unsecured creditors, despite the Banking Recovery and Resolution Directive (BRRD). The fear of an excessive shock to the financial markets relating to senior unsecured losses remained significant as a considerable proportion of bank loan holders in Italy are private clients, among other reasons.

The weaknesses of the German banking sector, high administrative costs and low returns, force the banks to continue working on their business models. Problems affecting regional state banks (*Landesbanken*), some of which were still suffering greatly due to shipping loans and some of which were under privatisation pressure, could not be adequately solved. Moreover, the Bundesbank warned of the high interest-change risk in the savings and cooperative bank sector, which is particularly heavily dependent on net interest income. Uncertainties regarding future business opportunities in Europe for banks with registered offices in the UK prompted primarily Japanese banks to relocate their European headquarters to Frankfurt or Amsterdam. A feared deterioration of credit quality in the Turkish banking sector due to considerable depreciation of the Turkish lira combined with a high share of refinancing in foreign currencies has not yet materialised; credit growth and consequently the economy too were further sustained for the time being through the KGF – Credit Guarantee Fund. Different countries showed excessive valuation levels in the real estate markets (Sweden, Norway, Australia and Canada, above all) and high levels of consumer and automobile loans (US and UK above all), some of which were reminiscent of pre-crisis levels and could put pressure on the banking sector in the future. However, the banks in those countries currently appear robust and adequately prepared. Changes in the banking markets are under constant observation and assessment to enable undertaking risk-mitigating measures early on.

In light of stable domestic demand, positive overall performance continues to be expected for the German and European business sector in 2018. Given the high capacity utilisation, investment

recognisable risks are measured using conservative standards and are taken into account in KfW Group's new business management through the systematic implementation of risk guidelines. The regularly performed calculations of risk-bearing capacity show that KfW Group can bear the risks assumed in the context of its mandate – even based on conservative stress scenarios. In financial year 2017, as in previous years, KfW Group systematically refined the processes and instruments in its risk management and controlling, taking into account current banking regulations. This particularly affected the further development of the measurement process for credit spread and settlement risks, the separation of continued development and validation of credit risk models at departmental level as well as revision of OpRisk management in terms of reporting and governance processes. After finalisation of the fifth amendment to the German Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – "MaRisk"), KfW commenced the related implementation measures.

As a result of an amendment to the KfW Law in 2013 and the issuance of the "Regulation concerning key banking supervision standards under the German Banking Act to be declared applicable by analogy to KfW and supervision of compliance to these standards to be assigned to the German Federal Financial Supervisory Authority" (the "KfW Regulation"), the German legislature enacted an expanded application of the KWG to KfW. KfW has since been obliged to apply key bank regulatory standards (KWG and Capital Requirements Regulation, "CRR") by analogy. The German Federal Financial Supervisory Authority and the German Central Bank (Bundesbank) are responsible for supervising compliance with the relevant applicable bank regulatory standards. Since autumn 2015 KfW has been undergoing the approval process for application of the advanced IRB approach ("IRBA"). The initial IRBA (partial) approval was granted with effect as of 30 June 2017. Having obtained regulatory approval for the advanced IRBA, KfW applied the advanced IRB approach to capital market communication, internal management and reporting. The IRBA approval process is currently scheduled to be fully completed as of 30 June 2022 at the latest.

account the special characteristics of a promotional bank, with adherence to supervisory requirements constituting a fundamental prerequisite to the group's business activities.

Organisation of risk management and monitoring

Risk management bodies and responsibilities

As part of its overall responsibility, KfW's Executive Board determines the group's risk policies. The Board of Supervisory Directors is informed at least quarterly of KfW Group's risk situation. The Presidial and Nomination Committee is responsible for dealing with legal and administrative matters as well as fundamental business and corporate policy issues. Moreover, in certain urgent cases, the committee has the authority to adopt resolutions in lieu of the Board of Supervisory Directors. The Chair of the Board of Supervisory Directors decides whether an issue is urgent. The Risk and Credit Committee is primarily responsible for advising the Board of Supervisory Directors on the group's current and future overall risk tolerance and strategy and supports it in monitoring implementation of the latter. It decides on loan approvals (including loans to members of management), operational level equity investments, funding and swap transactions, for which committee authorisation is required by the KfW Bylaws. The Audit Committee monitors, above all, the accounting process and the effectiveness of the risk management system and internal monitoring procedures 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.

programme enables management and non-management staff throughout KfW Group to acquire basic knowledge or to deepen their specialised knowledge.

In accordance with applicable bank regulatory provisions, the Remuneration Committee is also responsible for monitoring whether the structure of the remuneration systems for the heads of the Risk Controlling and Compliance functions and for any employees who have a significant impact on the group's overall risk profile is appropriate.

Risk management within KfW Group is exercised by closely interlinked decision-making bodies. At the top of the system is the Executive Board, which takes the key decisions on risk policy and receives relevant information for this purpose. There are three risk committees below the level of the Executive Board (Credit Risk Committee, Market Price Risk Committee and Operational Risk Committee) which prepare decisions for the Executive Board and also take their own decisions within their remits. The committees also perform KfW Group management functions; thus, representatives from the subsidiaries KfW IPEX-Bank and DEG are also included. Additional working groups do the preliminary work for these committees. Committee resolutions are adopted by simple majority with middle and back office departments (Marktfolge) or Risk Controlling being generally entitled to veto. An issue may be escalated to the Executive Board level in the Credit Risk Committee and the Operational Risk Committee.

fundamental aspects of collateral acceptance and valuation, particularly in terms of the methods used and their validation as well as the collateral management processes. The Rating Systems Working Group is responsible for credit risk measurement instruments and rating procedures. 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 and discussions on current loan portfolio developments. KfW IPEX-Bank's and DEG's commitments are also presented to the Credit Risk Committee. An additional meeting, held on a quarterly basis, also includes the Director of Risk Controlling and those of the business sectors as well as the DEG CRO. Internal Auditing, Compliance and Legal staff are granted guest status. Reports about the development of regulatory requirements, their impact and the progress of implementation projects in KfW Group are given 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 members responsible for capital markets business and finance as well as the directors of Financial Markets, Risk Controlling, Accounting, Transaction Management, Group Development and Economics. Internal Auditing and Compliance have guest status. The Chief Risk Officers of KfW IPEX-Bank and DEG attend the meetings on a quarterly basis and as necessary. The Market Price Risk Committee discusses KfW Group's market price risk position and assesses the market price risk strategy on a monthly basis. The committee also monitors KfW Group's liquidity risk position and decides on all questions relating to the principles and methods for the management of market price and liquidity risks, and funding as well as transfer pricing and the valuation model for commercial transactions. The committee prepares the final decision of the Executive Board regarding the interest risk strategy. Furthermore, the Market Price Risk Committee is supported by the Hedge Committee,

The Operational Risk Committee meets once a quarter and provides support to the Executive Board in cross-functional management and the necessary decisions and acknowledgements in respect of operational and reputational risk, and group security including business continuity management. The Operational Risk Committee is comprised of the Chief Risk Officer, who is responsible for chairing the meetings, a further Executive Board member (deputy chair of meetings) and all KfW directors, who can be represented in exceptional cases by the heads of the departments appointed. KfW IPEX-Bank and DEG are also represented in the committee. Internal Auditing participates in the meetings but is not entitled to vote. The committee's task is to resolve on risk principles anchored in guidelines and on methods and instruments that are applied by the first line of defence in the risk management cycle. It also takes decisions on group-wide management measures. Moreover, the committee discusses the risk status on the basis of the findings obtained through different methods and instruments and evaluates any group-wide need for action, with the aim of adequate risk management. 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. The Operational Risk Committee may form sub-committees for certain focal areas to facilitate its work. It formed the Group Security Board for matters relating to group security and business continuity management and the OpRisk Working Group for exchange with the decentralised department coordinators for operational risk and business continuity management.

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 Controlling department.

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– Liquidity adequacy

Processes/Instruments

Risk culture

Risk Committees

Credit Risk Committee | Market Price Risk Committee | Operational Risk Committee

Risk inventory	Risk tolerances	Stress tests	Reporting

Internal capital adequacy assessment process (ICAAP)			Internal liquidity adequacy process (ILAAP)
Credit risk	**Market price risk**	**Operational risk**	**Liquidity risk**
– Portfolio guidelines – Risk guidelines – Second vote or central voting (programme business) – Limit management system – Proactive collateral management – Internal rating models – Credit portfolio models – Early warning procedure – Intensive support	– Proprietary models for interest rate, basis spread, foreign currency and credit spread risks – Limiting and budgeting	– Model for determining capital requirements (pillar II) – Risk assessments – Risk indicators – Loss event analyses – Business impact analysis – Emergency plan, crisis team	– Proprietaey models for liquidity risks – Liquidity transfer pricing – Scenario analyses – Early warning procedure – Emergency planning
	Equity investment risk	**Project risk**	
	– Risk management process for equity investments (operational level) – Management of strategic equity investments – Group risk management	– Central project portfolio management – Management of individual projects	
		Reputational risk	
		– Sustainability management – Countries blacklist	

Model development and validation processes

Model inventory ‹‹‹ ››› Modelling guideline ‹‹‹ ››› Methodology principles

Other internal monitoring procedures

– Internal control system
– Compliance function
– Internal auditing

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.

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

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

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

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

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

Budgets based on risk-weighted assets (RWA) at the level of each business sector/department are taken into account to ensure risk-bearing capacity. The allocated budgets are available to the business sectors/departments for backing old and new business for the various types of risk. Capital allocation is conducted as part of KfW Group's annual business sector planning. In addition to the requirements induced by business sector planning, this process also takes into account the risk objectives and the bank's risk tolerance. Budget compliance is checked on a monthly basis and action is taken, if necessary. Moreover, economic capital budgets are set for different types of risk as their central control and limit variable, and monitored monthly.

To avoid excessive debt, the leverage ratio is integrated into the capital adequacy assessment process as a further control variable. The leverage ratio is taken into account in additional forward-looking projections, and compliance with defined traffic light limits checked on a quarterly basis.

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

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

– Operational risk	*5,660*	*6,087*
Regulatory capital (available risk coverage resources)	27,347	25,890
– Tier 1 capital	*27,347*	*25,890*
– Tier 2 capital	*0*	*0*
Tier 1 capital ratio	20.6%	22.3%
Total capital ratio	20.6%	22.3%

[1)] Analogous application of advanced IRBA for internal purposes

At the end of the second quarter 2017 KfW, as expected, received an initial partial approval to calculate the regulatory capital ratios in accordance with the advanced IRBA. The aim is to obtain additional approval for other portfolio segments by 2022. Meanwhile, portfolio segments not yet approved are valued by applying the generally more capital-intensive credit risk standardised approach ("CRSA"). These portfolio segments were previously valued in accordance with the advanced IRBA under voluntary, analogous application of the advanced IRBA based on the main legal requirements. The decline in capital ratios over the course of the year was largely due to the transition from the previous analogous IRBA application to the regulator-approved IRBA application from mid-year on. Adjustments made to the methods of collateral valuation for final-borrower assignments in the domestic promotional business were necessary as part of the IRBA approval process, which resulted not only in increasing RWA but also a higher economic capital requirement (see also the following section). At 20.6%, the total capital ratio at year-end 2017 far exceeded the overall capital requirement:

Minimum capital requirements[1)]

	31 Dec. 2017
Total SREP Capital Requirements (TSCR)	**13.0%**
Capital conservation buffer	*1.250%*
Countercyclical capital buffer	*0.054%*
Overall Capital Requirement (OCR)	**14.3%**

[1)] As of 31 December 2016, KfW reported its capital ratio according to the CRSA; therefore, no year-on-year comparison is made.

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 to its available risk coverage resources. KfW Group bases its calculation of the economic capital requirement on a solvency target of 99.99% and a time frame 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 if their credit ratings deteriorate ("migration"). Credit risk includes settlement risk involved in settling derivative transactions. The economic capital requirement for credit risk is quantified by the Risk Controlling department, largely with the help of statistical models. For counterparty risk, the loss potential is computed using a loan portfolio model and the risk measure of "credit value-at-risk". The difference between credit value-at-risk and expected loss is referred to as the economic capital requirement. Migration risk is taken into account in the forward-looking component of the calculation of risk-bearing capacity on the basis of scenarios. For settlement risks, a buffer determined on the basis of different quantification approaches, which is validated annually, is applied in calculating economic risk-bearing capacity.

based on statistical models. Moreover, a stop loss buffer is maintained for interest and foreign currency risks. Ultimately, the economic capital requirement is defined as the sum of value-at-risk and an additional stop loss buffer.

The capital requirement for **operational risk** is calculated using an internal statistical model, which was designed based on regulatory requirements for advanced measurement approaches. It takes a risk-sensitive approach to internal and external event data and risk scenarios. The capital requirement is calculated using diversification effects at the business sector level. Moreover, the measurement of the quality of operational risk management within the group generates premiums and discounts that are then applied to the capital requirement.

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

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

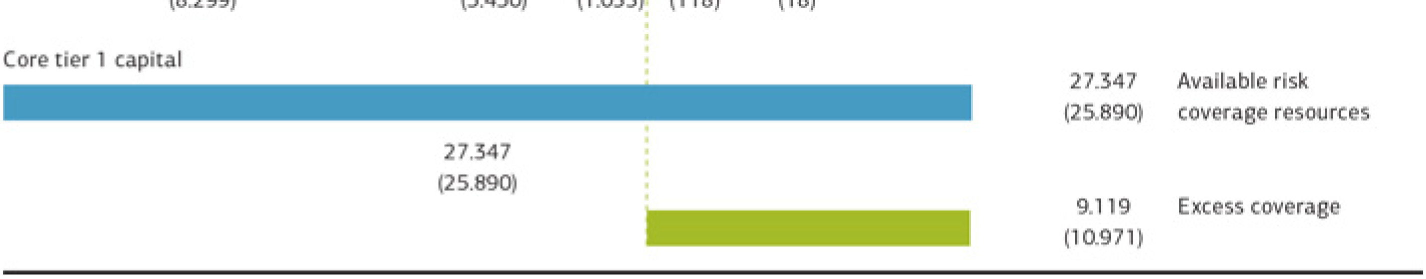
Using this method, the economic risk-bearing capacity as of 31 December 2017 satisfied a solvency level of 99.99%. The excess coverage of the available risk coverage resources beyond the total capital requirement as of 31 December 2017 of EUR 9,119 million decreased compared to 31 December 2016 (EUR 10,971 million). The decrease is largely due to the higher capital requirement for credit risk due to the aforementioned adjustments made to methods of collateral valuation for final-

opinion.

The group manages **liquidity risks** using appropriate internal key risk figures, maximum liquidity gap limits (outflows on a monthly and yearly basis) and minimum levels of available liquidity (liquidity potential) as well as the utilisation threshold in accordance with Article 4 of the KfW Law. Internal calculations relating to the liquidity situation are based on comparing liquidity need and liquidity potential as a ratio in stress scenarios of differing severity. No capital backing is provided as part of calculating risk-bearing capacity.

Reputational risks are evaluated and managed on a qualitative basis. Capital backing as part of calculating risk-bearing capacity is not currently provided, as the materiality of risk is primarily due to the fact that KfW is a government-owned institution with a high moral responsibility and as such subject to corresponding expectations of the public at large and other stakeholders. Materiality is thus based less on observed or potential decreases in KfW Group’s net assets, earnings or liquidity. Moreover, reputational risks are to some extent implicitly included in other quantified types of risk.

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 inputs and their complex interactions can be identified and modelled for the risk development of a portfolio. This is one reason why KfW Group carries out stress tests with both the credit risk models and the market price risk models. KfW Group also continually works to refine its risk models and processes.



In brackets: figures as of 31 December 2016

Stress and scenario calculations

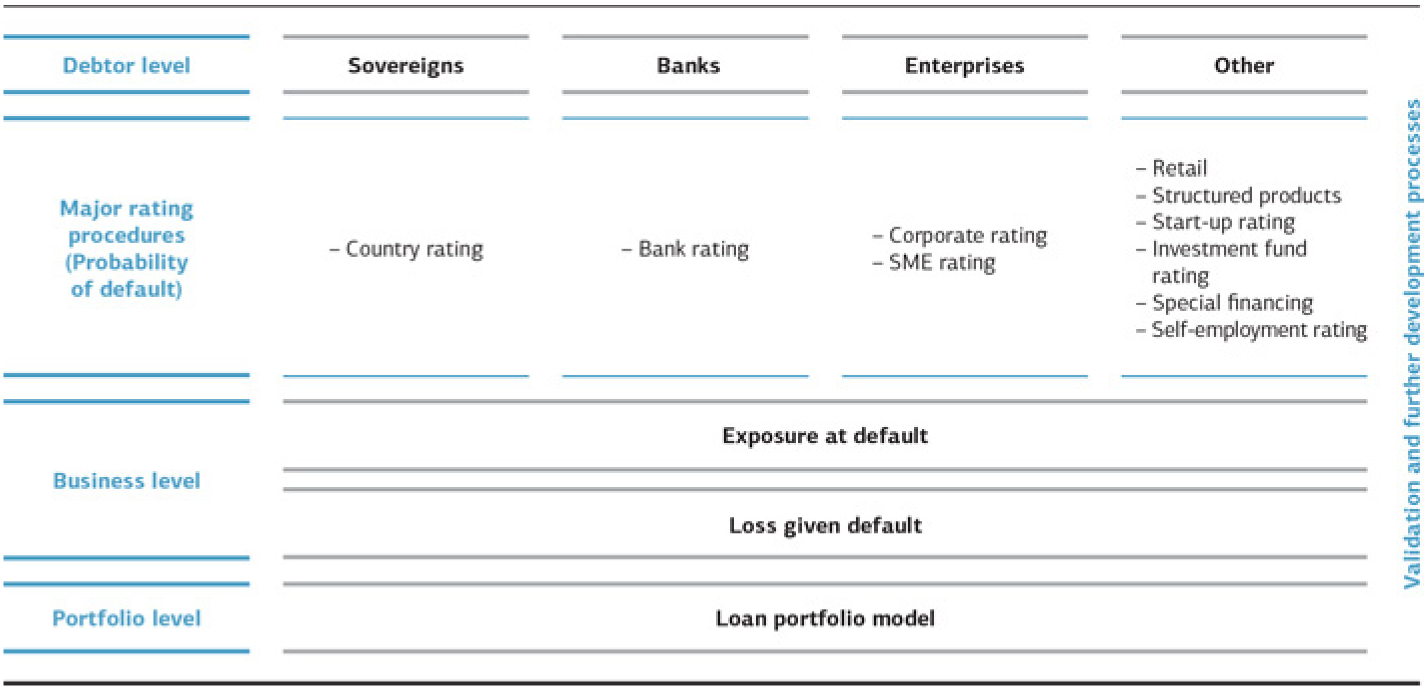
To ensure a stronger early indicator function and proactive focus in its risk-bearing capacity concept, KfW Group monitors, on a quarterly basis, a forecast scenario (baseline scenario), a downturn scenario (slight economic slowdown) and a stress scenario (deep recession) as well as their respective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

The forecast scenario provides a preview of risk-bearing capacity at the relevant year-end and includes the projected business performance, expected consolidated comprehensive income, and other effects influencing risk-bearing capacity, such as foreseeable changes in the capital structure and methodological developments. The current forecast for 31 December 2018 shows reduced excess coverage of available risk coverage resources over the economic capital requirement compared to 31 December 2017. At the same time, the forecast shows a slight drop in the total capital ratio compared to 31 December 2017. It should be noted in this respect that the overall capital requirements for the turn of the year 2017/2018 and 2018/2019 will increase in each case as a result of phasing in the buffer requirements and that these may change under the banking supervisory authorities' Supervisory Review and Evaluation Process (SREP). According to current planning, the forecast complies with overall capital requirements at all times.

In the downturn and stress scenarios, effects on earnings and changes in capital requirements are simulated for a twelve-month period assuming negative economic development scenarios of varying severity. The effects of a severe global recession emanating from the euro area are depicted in the stress scenario. In both scenarios, KfW Group currently assumes an overall increase in credit risk (counterparty and migration risks) and equity investment risk. In these scenarios, the EUR and USD interest rates as well as the EUR-USD exchange rate are forecast to develop 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, credit spreads and basis spreads, as a result of which the economic capital requirement for the corresponding types of risk will rise. Losses from securities prices as well as from operational and project risk further reduce available risk coverage resources in the stress scenario.

Overall, risk-bearing capacity at a solvency level of 99.99% and the leverage ratio are at an adequate level.

Further stress tests are regularly carried out in addition to the economic scenarios to examine the resilience of KfW Group's economic and regulatory risk-bearing capacity. In addition to the standard stress tests, current potential macroeconomic dangers form the basis for varying scenario stress tests. In 2017, the scenarios focused on US protectionism, the Qatar crisis, the potential resolution of a major German bank and China's high debt level. The concentration and inverse stress tests show how concentration risks and other potential dangers materialising in unfavourable combinations could jeopardise KfW Group's business model. In 2017, they again simulated the potential impact of the planned regulatory changes associated with the finalisation of Basel III on the group's capital ratios.



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

KfW Group uses internal rating procedures for the measurement of the probability of default for banks, countries, corporations, small and medium-sized enterprises, start-ups, the self-employed, investment funds and private equity investors. 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, some of which were licensed by an external provider. For structured products, tranche ratings are determined on the basis of the default pattern of the asset pool and the waterfall structure of the transactions. The rating procedures aim to predict the probability of default on a one-year basis. As a rule, the middle and back office departments are responsible for preparing ratings for risk-bearing business. Ratings are updated regularly, at least once per year.

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.

Exposure at default and valuation of collateral have significant influence on 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 reali-

[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.

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). The collateral valuation procedure and the procedure for estimating EAD and LGD are also subject to regulation validation and further developed as needed.

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

The portfolio guidelines distinguish between different types of counterparties and product variants and define the conditions under which business transactions may generally be conducted. In addition, risk guidelines for countries, sectors and products are defined in order to react to existing or potential negative developments with specific requirements for lending. The limit management systems ultimately track both risk concentrations (concentration limits) and credit rating-dependent individual counterparty risk (counterparty limits). Concentration limits serve to restrict risk concentrations in the loan portfolio and thus to prevent major individual losses. Counterparty limits serve to fine-tune the counterparty-specific management of credit default risk.

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 division is responsible for non-performing loans and for providing intensive support to banks and higher volume loans with a risk amount greater than EUR 1 million in the KfW portfolio. The portfolio credit management department is responsible for supporting retail business. KfW IPEX-Bank and DEG's non-performing loans and commitments requiring intensive support are managed directly by each subsidiary. Internal interface regulations are in place in the relevant business sectors to ensure clear control of responsibilities and allocation. Restructuring also cooperates closely with the market areas and the central Legal Affairs department.

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

Risk provisions for lending business

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

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

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.

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. 2017	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
Carrying amount as equivalent for maximum risk of default	274,119	275,752	126,671	135,265	9,648	13,917
Risk provisions for lending business	177	171	1,280	1,439	0	0
Carrying amount neither past due nor impaired	273,674	275,482	123,669	132,900	9,648	13,917
Collateral provided	*151,487*	*167,033*	*51,108*	*53,409*	*0*	*0*

	Derivatives designated for hedge accounting; other derivatives		Securities and investments; investments accounted for using the equity method		Contingent liabilities; irrevocable loan commitments	
	31 Dec. 2017	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
Carrying amount as equivalent for maximum risk of default	14,219	34,808	34,029	33,061	83,733	85,489
Risk provisions for lending business	0	0	2	4	61	44
Carrying amount neither past due nor impaired	14,219	34,808	33,879	32,883	83,718	85,438
Collateral provided	*3,797*	*17,355*	*182*	*294*	*0*	*0*

Financial instruments past due and not individually impaired

EUR in millions

	Loans and advances to banks		Loans and advances to customers		Securities and investments; investments accounted for using the equity method	
	31 Dec. 2017	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
Carrying amount less than 90 days past due	341	207	1,854	1,143	0	0
Carrying amount 90 days and more past due	52	19	284	269	1	1
Total	**394**	**225**	**2,138**	**1,412**	**1**	**1**
Collateral provided	*245*	*149*	*452*	*716*	*0*	*0*

Individual impairments, provisions	*26*	*40*	*930*	*1,024*	*0*	*0*	*8*	*9*
Collateral provided	*1*	*1*	*446*	*438*	*0*	*2*	*0*	*0*

As of 31 December 2017, EUR 1.1 billion (net after deduction of risk provisions, year-end 2016: EUR 1.2 billion) was classified as individually impaired out of EUR 542 billion (year-end 2016: EUR 578 billion) in financial instruments outstanding. Potential losses are conservatively estimated, and individual impairment losses of EUR 1.0 billion (year-end 2016: EUR 1.1 billion) were recognised.[4)]

In addition to provisions for immediate risks of default, KfW Group made provisions for latent risks of default (economic and political risks). As of 31 December 2017, risk provisions for transactions not individually impaired totalled EUR 0.6 billion (year-end 2016: EUR 0.6 billion). The collateralisation of loans in KfW Group's portfolio primarily relates to the on-lending business and the promotional business guaranteed by the Federal Republic or individual federal states *(Länder)*.[5)] By far the largest portion of collateral is attributable to assigned final-borrower receivables from the on-lending business. Tangible collateral, e.g. ships and aeroplanes, plays only a minor role in relation to the total amount of collateral.

The decline in derivatives exposure is primarily due to exchange rate effects (USD depreciation). The derivatives exposure 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.

There was an increase in loans and advances which were less than 90 days past due and not individually impaired in the year under review. These were largely arrears of one day. Most of these loans and advances were settled the following working day.

KfW Group did not take possession of any significant assets previously held as tangible collateral in 2017. Deferred payments in the performing portfolio in 2017 were primarily in the Export and project finance business sector. This deferred payment volume is not significant based on total lending volume.

Portfolio structure

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

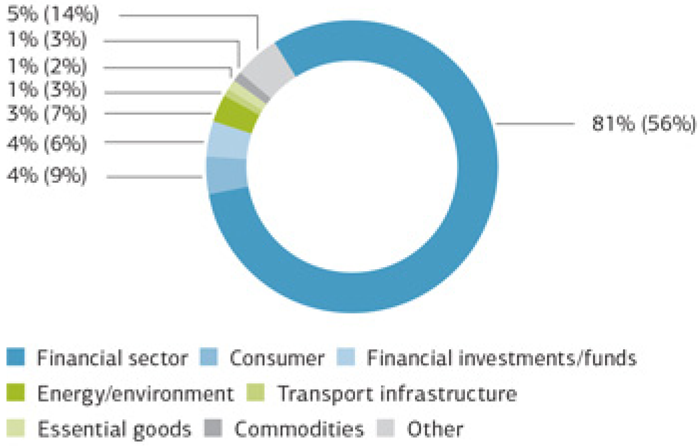
4) The transaction of approximately EUR 15 billion mandated by the Federal Government as part of the support measures for Greece is completely hedged by a federal guarantee and is therefore not presented in the portfolio of individually impaired financial instruments.
5) The collateral is presented as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

these adjustments resulted in lower economic capital requirements due to portfolio effects and a decrease in business, particularly in the Export and project finance business sector.

Sectors

The significant share of overall capital required for credit risks attributable to the financial sector is due to KfW Group's promotional mandate. By far the greatest portion of KfW Group's domestic promotional business consists of loans on-lent through commercial banks. The financial sector's economic capital requirement increased overall, primarily due to the adjustments to methods described above. This particularly affected banks with large volumes of on-lending business. For all other sector clusters, the adjustments to methods led to a reduction of the capital requirement.

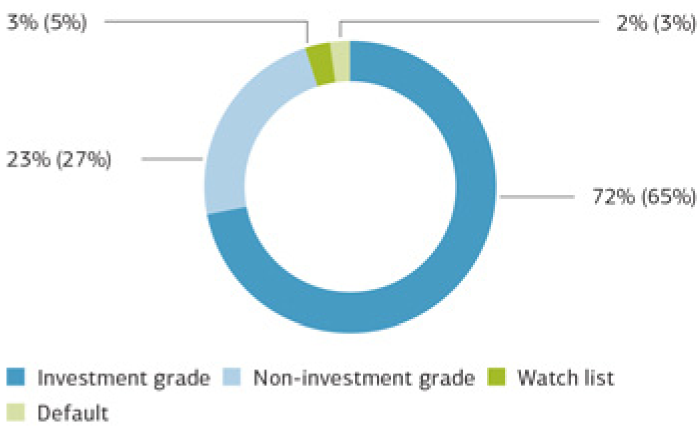
Economic capital requirements by sector
31 Dec. 2017 (31 Dec. 2016)



Credit quality

As credit quality is a major factor influencing economic capital requirements, it is appropriate to examine the distribution of net exposure[7)] by credit quality category when analysing the credit quality structure. Overall, net exposure at nearly stable volumes rose due to the aforementioned adjustments to collateral valuation methods, in particular in the on-lending business (mainly in housing and environmental programmes). This resulted in an increase in good rating classes or a higher investment grade exposure. The proportion of watch list and non-performing loan exposures decreased both in absolute as well as relative terms. KfW Group's loan portfolio continued to possess a good credit quality structure.

Credit quality by net exposure
31 Dec. 2017 (31 Dec. 2016)



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

geographic distribution of the underlying assets in the securitisation portfolios.

Exposure based on par values

	CLO	RMBS	CMBS	ABS & other	Total 31 Dec. 2017	Total 31 Dec. 2016
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Investment Grade	0	975	5	3,792	4,773	4,792
Non-Investment Grade	0	7	1	42	50	56
Watch List	0	0	0	0	0	0
Default	21	0	0	0	21	58
	21	**982**	**6**	**3,834**	**4,844**	**4,906**

The portfolio volume as of 31 December 2017 decreased slightly year on year (nominal value EUR –0.1 billion). The decrease affected investment and non-investment grade as well as default holdings. The regional focus on Europe remains unchanged in the geographic breakdown of the underlying asset pool compared with 31 December 2016, with the largest share attributable to Germany. Overall, European securitisations, including German securitisations, performed well. The cumulative default rates for European securitisations remained low.

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

In total, market price risk within the group required a total of EUR 5.2 billion in economic capital as of 31 December 2017. This is EUR 208 million less than compared to the previous year. KfW Group market price risk is broken down as follows:

Credit spread risk	464	290
Market price risk	**5,242**	**5,450**

Interest risk

KfW Group assumes limited interest rate risk in EUR and USD only, in order to take advantage of long-term opportunities for returns. All relevant data from the preparation of fixed interest statements are considered in the determination of interest risk in the banking book. 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 risk is part of a long-term management philosophy. A substantial stop loss 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. 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 examine possible losses under extreme market conditions. Apart from this shift required by regulatory law, the tests include scenarios such as tilts of the yield curve and an extension of the holding period. The capital requirement for interest risk decreased only slightly by EUR 90 million as of 31 December 2017; the USD exposure was slightly reduced.

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 risk, the economic capital requirement for liquid currency positions is calculated analogously to interest risk using a variance/covariance approach as the sum of a stop loss buffer and a two-month value-at-risk at a solvency level of 99.99%. A twelve-month value-at-risk is used for all currencies with limited trading and hedging opportunities. The Market Price Risk Committee classifies each currency as liquid or illiquid at least once a year. The currency portfolio predominantly comprises liquid positions. Stress tests are regularly conducted in order to estimate possible losses in the event of extreme market conditions. USD depreciation in the reporting year (EUR/USD as of 31 December 2017: 1.1993 and as of 31 December 2016: 1.0541) resulted in negative effects on net present value, which were offset by forward sales of margins. Moreover, the stop-loss buffer totalling EUR 230 million was increased to EUR 550 million. This resulted in an increase in the capital requirement for currency risks of EUR 89 million as of 31 December 2017 which was compensated by the aforementioned reduction in the USD interest risk position in 2017.

Basis spread risk

Basis spread risk largely comprises tenor and foreign exchange basis spread risk. The economic capital requirement for this risk is calculated with a variance/covariance approach at a solvency level of 99.99% and with a holding period of twelve months. The capital requirement for basis spread risk as of 31 December 2017 stood at EUR 969 million, representing a year-on-year decrease of EUR 380 million. The decline resulted in particular from a reduced liquidity maturity transformation and a cross-currency spread position in USD, in addition to risk-mitigating market data effects.

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 economic capital requirement for credit spread risk as of 31 December 2017 was EUR 464 million. Credit spread risk rose by EUR 174 million year on year. The rise resulted primarily from the use of sector curves rather than security-specific spreads as were used thus far.

– market liquidity risk (the risk of being unable to unwind specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions).

The primary objective of liquidity management is to ensure that KfW Group is capable of meeting its payment obligations at all times. KfW is available as a contractual partner for all commer- concluded and available liquidity potential.

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

Contractual payment obligations arising from financial instruments by maturity range
as of 31 December 2017[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	4,394	1,795	565	3,144	8,596	18,494
Certificated liabilities	25,916	18,311	69,123	209,530	103,246	426,126
Net liabilities arising from derivative financial instruments	–190	–251	–356	297	–6,842	–7,341
thereof Liabilities arising from derivative financial instruments	*16,465*	*15,086*	*44,213*	*129,157*	*43,442*	*248,363*
Subordinated liabilities	0	0	0	0	0	0
Liabilities arising from on-balance sheet financial instruments	**30,120**	**19,856**	**69,332**	**212,972**	**105,000**	**437,279**
Contingent liabilities	3,651	0	0	0	0	3,651
Irrevocable loan commitments	80,082	0	0	0	0	80,082
Liabilities arising from off-balance sheet financial instruments	**83,733**	**0**	**0**	**0**	**0**	**83,733**
Liabilities arising from financial instruments	**113,852**	**19,856**	**69,332**	**212,972**	**105,000**	**521,012**

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

Liabilities to banks and customers	18,481	2,944	603	3,221	8,828	34,076
Certificated liabilities	30,398	36,185	50,879	235,095	91,766	444,323
Net liabilities arising from derivative financial instruments	–1,276	–2,503	–3,012	–13,632	–10,633	–31,057
thereof Liabilities arising from derivative financial instruments	*14,921*	*19,589*	*28,398*	*137,634*	*50,427*	*250,969*
Subordinated liabilities	0	0	4	23	235	262
Liabilities arising from on-balance sheet financial instruments	**47,603**	**36,626**	**48,473**	**224,707**	**90,195**	**447,604**
Contingent liabilities	3,955	0	0	0	0	3,955
Irrevocable loan commitments	81,534	0	0	0	0	81,534
Liabilities arising from off-balance sheet financial instruments	**85,489**	**0**	**0**	**0**	**0**	**85,489**
Liabilities arising from financial instruments	**133,092**	**36,626**	**48,473**	**224,707**	**90,195**	**533,093**

[1)] Net liabilities arising from derivative financial instruments comprise payment obligations which are offset against the corresponding payment claims from derivative contracts; the gross liabilities are reported as liabilities arising from 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 Bundesbank, repurchase agreement assets, the liquidity portfolio and the volume of commercial paper that is regularly placeable on the market. The available liquidity potential is subjected to stress analysis in the same way as the other cash flow components. The ratio of cumulative required liquidity to the cumulative available liquidity potential is calculated for each scenario. This figure may not exceed the value of 1 in any scenario for any period. The prescribed horizon in the normal case scenario is twelve months, in the stress case six months, and in the two worst case scenarios, three months. The scenario assumptions are validated on an annual basis.

The key figures are calculated and reported to the Market Price Risk Committee on a monthly basis. The following table shows the key risk indicators for the scenarios as of 31 December 2017:

KfW liquidity risk indicators as of 31 December 2017

	Indicator
Normal case	0.13
Stress case	0.23
Worst case (institution-specific)	0.16
Worst case	0.45

The internal liquidity risk indicators remained below the maximum limit of 1 throughout 2017.

Current funding environment

Developments on the international capital markets in 2017 were characterised by major political events in France and Germany as well as the persistence of loose central bank policy in the euro area and interest rate hikes in the US. While the ECB’s monetary policy continued its expansionary course in 2017 regardless of strong economic growth and subdued inflation expectations, the US Federal Reserve undertook three rate hikes over the course of the year and stayed its course of a more contractionary monetary policy. Despite high volatility at the beginning of 2017, the euro market saw a considerable increase in investor demand as the year progressed. In addition to the Eurosystem public sector purchase programme (“PSPP”), the growing positive perception of Europe underpinned by positive economic data at the end of the year was also a determining factor.

KfW Group’s established funding strategy is characterised by high-volume bonds well placed to a global investor base. KfW successfully completed its funding activities thanks to its flexible attitude to currencies, instruments and structures. It raised a total volume the Euro Commercial Paper ("ECP") programme designed for global

2017 (year-end 2016: USD 8.7 billion).

OPERATIONAL RISK AND BUSINESS CONTINUITY MANAGEMENT (OPERATING RISK)

KfW Group's organisational structure provides for a two-tier system comprising decentralised and centralised units liaising with the Operational Risk Committee. Management of focal areas is decentralised within the business sectors and the subsidiaries, and is performed by the respective directors or managing directors, who are supported by the respective sector coordinators of Operational Risk and Business Continuity Management. Monitoring and communication of focal areas is performed by Risk Controlling (central OpRisk Controlling) and Compliance (central Business Continuity Management). These groups develop the relevant methods and instruments for identifying and assessing risks and monitor their group-wide uniform application.

The aim of management and control of operational risk and business continuity management is the proactive identification and prevention 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 even in the event of loss of key resources.

In accordance with Article 4 (1) No. 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. The following types of risk/sub-types of operational risk are also defined and generally monitored by specialised second line of defence units: compliance risk, information security risk, physical security risk, legal risk, conduct risk, service provider risk (including outsourcing risk), personnel risk, operational risk from adjustment processes, model risk and information technology risk unrelated to information security.

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

In addition, operational risk is systematically recorded in risk assessments that are carried out group-wide. Such assessments also examine new activities in the New Products Process ("NPP") as well as changes in operational processes for potential operational risks. Within the risk assessments, operational risk is measured on the basis of internal data or expert estimates which are backed by a distribution assumption for loss frequency and amount. The potential losses revealed in the risk assessments carried out are reported to the directors and heads of department and the Executive Board once the data have been collected. As part of the risk assessment, the business areas check the implementation of additional risk-mitigating measures (e.g. checks as part of the internal control system, or "ICS").

Where adequate monitoring of operational risks using metrics is possible, risk indicators are used. Compliance with centrally prescribed risk-sensitive methodology requirements (e. g. training course participation, deadlines, escalation procedures) is monitored using business area-specific OpRisk information dashboards that ensure escalation across all levels up to the Executive Board in the event of non-compliance.

In total, operational risk within the group required a total of EUR 1,598 million in economic capital as of 31 December 2017. This amount is EUR 565 million higher than as of 31 December 2016 as a result of several individual losses in particular due to creation of provisions and updated risk scenarios.

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

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

Equity investments (operational level)

Undertaking equity investments at operational level is part of the group's promotional mandate. Accordingly, there are equity investments in connection with domestic and European investment financing and in the Promotion of developing countries and emerging economies and Export and project finance business areas. KfW group-wide basic rules for equity investments at operational level are set out in guidelines. Specific rules tailored to certain segments of equity investments are also set out in portfolio guidelines, working instructions or risk guidelines. Risk measurement is performed at an individual loan commitment level for operational level equity investments in the same way as for credit risk. In addition, equity investment portfolio risk is reported separately.

Strategic equity investments

Strategic equity investments support KfW's mandate of providing an efficient and sustainable promotional offering. In addition to reinforcing and expanding core competencies, the focus of this investment type is on complementing KfW's business sectors. Strategic equity investments normally have a long-term holding period. In addition, KfW also makes equity investments in accordance with Article 2 (4) of the KfW Law (mandated transactions). The Federal Government mandates these equity investments to KfW because the Federal Republic of Germany has a state interest in them.
A dedicated organisational unit is responsible for strategic equity investments based on an equity investment manual that describes legal bases, strategies, principles, procedures and responsibilities of equity investment management. Acquisitions and disposals of and changes to strategic equity investments are subject to defined due diligence processes as well as authorisation by the Executive Board and Board of Supervisory Directors in accordance with the KfW Bylaws. Moreover, the acquisition of an equity investment in excess of 25%, the increase of such an equity investment or their partial or full disposal requires authorisation by the Federal Ministry of Finance in accordance with Section 65 (3) of the Federal Budget Code *(Bundeshaushaltsordnung – "BHO")*. Strategic equity investments and their individual risks are constantly monitored and are presented to the Executive Board as part of an annual equity investment report – as well as in ad hoc reports. The individually defined strategies for the equity investments are updated annually. Moreover, the group is normally represented in the supervisory bodies of its strategic equity investments.

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

Reputational risk

Reputational risk is the risk that the perception of the group from the point of view of the relevant internal and external interest groups will deteriorate for the long term with a negative impact on KfW 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 in a decentralised manner. The framework for this purpose includes sustainability management with group-wide environmental and social principles relevant to credit approvals, or basing the management of KfW Group's own securities portfolio on sustainability criteria. Furthermore, examinations of new activities in the NPP as well as of outsourced activities in outsourcing management are regularly conducted to detect potential reputational risks.

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

Project risk

Original project risk comprises, in particular, planning assumptions that turn out to be inaccurate. Project risk has implications for the achievement of project objectives with regard to cost, time and quality (e.g. new technical requirements, and 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.

Internal monitoring procedures

Internal control system (ICS)

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

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

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

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

Appropriate monitoring and audit mechanisms determine the functionality and effectiveness of the ICS.

Procedural rules form the basis of the ICS. These constitute the framework for a proper business organisation within KfW Group, in the form of a binding policy.
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. The effects of any planned changes to operational processes and structures on the procedure and intensity of monitoring are analysed in advance. 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 defines and monitors compliance with relevant measures on the basis of relevant rules and norms. The Compliance function performs regular process-based and accompanying monitoring of the relevant areas of the internal control system. The results of additional second line of defence units (OpRisk in particular) are included in monitoring and the further development of the internal control system.

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

To ensure the adequacy and effectiveness of the ICS, KfW regularly scrutinises and continually refines its standards and conventions.

[8)] See section 25 a (1) no.1 KWG, MaRisk AT 4.3, and sections 289 (5), 315 (2) no.5, 324, and 264 d HGB.
[9)] COSO = Committee of Sponsoring Organizations of the Treadway Commission.

This confidence rests to a large extent 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 within the Group. The Executive Board delegates the associated tasks to the Compliance department.

The Compliance organisation is structured in accordance with the Three Lines of Defence model and as the second line of defence, it is aligned with the requirements for a MaRisk compliance function. In this connection, 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. This also includes protection of information, buildings, individuals and the IT infrastructure as well as ensuring business continuity management. There are therefore binding rules and procedures that influence the day-today implementation of values and the corporate culture, which are continually updated to reflect current law as well as market requirements.

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 2017 audited the decentralised risk management processes and central aspects of risk management and risk control which were relevant group-wide. Focal points included analyses of market and credit risk and reporting in support of major projects, as well as review of rating systems and operations to meet the provisions of Article 191 of the Capital Requirements Regulation ("CRR").

As in previous years, Internal Auditing also monitored the continued development of risk measurement procedures in 2017 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.

KfW expects **real global growth** of 3.8% for 2018, which means somewhat stronger momentum again year on year. This is based on a broad forecast as **industrialised countries** are expected to maintain their growth momentum (2018: 2.2%), while growth in **developing countries and emerging economies** is expected to be even higher than in 2017 (2018: 5.0%). The US economy is on a sound growth path. In the UK, in contrast, the negative consequences of the Brexit referendum and the unsatisfactory course of exit negotiations are likely to become more evident. The forecast for developing countries and emerging markets is mixed. Following the recessions in Brazil, Russia and major sub-Saharan African countries, continued recovery will have a positive impact on those regions. Higher growth is expected for commodity exporters; however, some of them will still be required to make considerable macroeconomic adjustments to the comparatively low commodity prices. While India is likely to benefit from its structural reforms, China will further adapt its growth model, which will result in a moderate slowdown.

The economic upswing in the **Economic and Monetary Union (EMU)** gained momentum in 2017 and the strong recovery appears set to continue in 2018. Accordingly, KfW forecasts real GDP growth of 2.4%, with such growth meanwhile having a broad regional base. In particular, the greater momentum has now also reached Italy and France. The most important pillar of economic recovery in the EMU remains its sound domestic economic performance. Private consumption is boosted by labour market improvements and the associated rise in wages. In addition, accelerated growth worldwide provides tailwind to the export sector, compensating for the negative consequences of the strong euro. KfW expects the fiscal policy to provide a slightly expansionary impetus. Progress has also been made in cleaning up bank balance sheets – in Italy in particular. Financing conditions are thus likely to remain advantageous for the time being and, together with high capacity utilisation, prompt companies to make greater efforts to modernise their capital stock.

The **German economy** was in excellent shape at the beginning of 2018. The boost to export as a result of the steady recovery in Europe and around the world, along with stable domestic demand, ensures higher capacity utilisation. This has had a positive impact on businesses, which are likely to increase their investments. Consumption appears to remain in a clear upswing at the same time due to the steady increase in employment and rising wages. Prospects for housing construction still also appear favourable in the long term given an excess of 600,000 building permits over residential homes completed. Overall, KfW expects solid real growth of around 2.5% in 2018.

The **financial market environment** remains characterised by extremely expansionary monetary policy in 2018, although the two largest central banks will be gradually scaling back their stimulus programmes. The European Central Bank will cut its bonds purchases in half, to EUR 30 billion per month from January 2018, and has announced that it will continue to do so until September 2018. It currently appears that the purchases will also continue after September 2018, although likely at a further reduced level. The first key interest rate hikes are not expected until the beginning of 2019 as the ECB has repeatedly communicated that it will not take such measures until well after the bond purchasing programme has ended. KfW consequently expects moderate yield increases on the euro area capital market in 2018 and slightly higher interest rates on longer maturities on the money markets from the second half of the year. The US Federal Reserve is expected to continue tightening its monetary reins in 2018, with a slight hike of key interest rates as last year. Given the advanced stage of the economic cycle, KfW assumes that the Federal Reserve will hardly restrict its monetary policy any further from mid-2019 and further expects somewhat higher rate increases for short term maturities than for longer term ones.

Risk outlook – Risk situation and risk-bearing capacity

Global economic growth in 2017 recorded the highest rate in seven years. The upturn was triggered and driven, in particular, by monetary policies and recently also by fiscal stimulus and is broad-based in terms of indicators, economic sectors and number of **countries.** Short-term economic prospects thus remain fundamentally positive although the current momentum does not appear to be sufficient to achieve and secure sustainable growth and higher potential growth.

Moreover, there remain considerable downside risks, in particular relating to medium and long-term development. Such risks result, among others, from developments relating to (i) the continued uncertainty about the US's economic and foreign policy, (ii) a lack of clarity as to the impact of Britain's exit from the EU on Europe's economic environment, (iii) the prevailing structural impediments in many countries, (iv) a quicker and more stringent tightening of global financial conditions than previously anticipated if US economic policy has an inflationary impact, prevalent phenomenon of high and increasing private debt levels, which has significantly increased private sector vulnerability to external shocks in many countries.

In light of the above, continued acceleration of economic growth in 2018 represents an optimistic scenario but not one that will occur automatically, as these medium-term risks could materialise as early as 2018. In addition, the Italian general election in 2018 also represents a short-term risk. If anti-European political parties are able to obtain a significantly higher share of votes than currently expected, this could trigger turbulence on euro-area government bond markets with possibly far-reaching consequences for other financial markets and the real economy. In the short term, however, there is also a chance that the positive business and consumer sentiment, supported by the continued favourable financing conditions, translates into stronger than expected economic momentum.
The low interest rate environment in Europe will persist in 2018 and, in combination with high regulatory costs and greater investment in digitalisation, continue to burden European banks' profitability, which is already at a low level. As a consequence thereof, pressure on banks to further lower costs (by reducing staff and branches) and to continue consolidation will remain high. In view of this, assessing the sustainability of bank business models and revenue drivers will be a focal point in European banking supervision in 2018.

The favourable forecast of economic growth in Germany and Europe as a whole is expected to bolster the recent increase in lending to companies and private households in 2018. This has resulted in early signs of overheating in various real estate markets. Evidence of this can already be seen on the markets in Norway and Sweden above all (but also on non-European markets, such as in Canada, Australia and New Zealand), to which particular attention should be paid.

The European Banking Authority focused, among other things, on the improvement of asset quality (above all in Italy, Portugal and Ireland) in 2017. Due to the introduction of IFRS 9, the ECB's new guidance to banks with respect to non-performing loans (NPLs) and the forthcoming EBA stress test, KfW expects a continuing reduction of NPLs in Europe in 2018, a trend that is also underpinned by the favourable economic environment. The Ecofin Council agreed to an action plan to reduce NPLs as well. Banks have been demanding the implementation of a secondary market for NPLs, as it is currently expected to be implemented by the end of 2018, for years. Further effects to be expected as a result of IFRS 9 are heightened earnings volatility and a capital adequacy burden that is nevertheless manageable.

certain regulatory requirements could give US banks further competitive advantages.
The US Federal Reserve balance sheet reduction initiated recently and anticipated further interest rate hikes could gradually cause a shortage of USD liquidity and thus divert capital flows to the US. In particular, emerging economies and their banks, which grant loans and raise funding in USD, could be among those negatively affected.

In light of stable domestic demand, positive overall performance continues to be expected for the German and European **corporate sector** in 2018. Given the high capacity utilisation, investment activity could moreover increase in Germany as well as in Europe, which would provide further positive economic impetus. Expectations for the US market are also favourable.

The positive sentiment in the German **private equity market** has continued. Both fundraising and the exit climate are highly favourable throughout all stages. The private equity scene continues to benefit from the ongoing low interest rate environment and the associated sustained investor interest in alternative investments. This is also increasingly reflected in comparatively high transaction volumes and company valuations, which, however, implies risks in the event of a potential downturn. The market outlook for 2018 remains optimistic, assuming a stable politico-economic environment.

The performance of European **securitisations** is expected to remain at a good, stable level in 2018 due to solidly hedged structures, despite various politico-economic uncertainties. Anticipated developments in the KfW Group segments that are relevant to risk are not expected to have any material adverse effects on the risk situation in general, provided that the risks mentioned above do not materialise.

Overall, stable development is anticipated for KfW Group's **(core) tier 1 and total capital ratios** as well as for its economic risk-bearing capacity (99.99% solvency level) in financial year 2018, based on forecasts prepared in the group's internal capital adequacy process.

The liquidity situation was stable in 2017. The funding volume was in line with projections. The need for funding in 2018 has increased year on year, due to slightly higher cash inflows from repayments and higher outflows of funds compared to 2017. Unscheduled repayments can be expected to remain at a high level. No significant changes in liquidity risk are anticipated, due to the continued stable funding situation.

In order to implement KfW Group's strategic objectives, the planning for the group's business sectors reflects measures with a strategic focus on promotional quality and an orientation of business activities towards the key megatrends "climate change and the environment", "globalisation", "social change" and "digitalisation and innovation". Establishing the new "digitalisation and innovation" megatrend sets the standard for advancing and expanding targeted promotion in this area through suitable product approaches. The aggregate portion of promotional business volume dedicated to climate and environmental protection financing of 38% is at a high stable level. The portion of planned new commitments made by Mittelstandsbank (SME Bank) in domestic promotional business will temporarily decrease somewhat and probably amount to 41%.

Domestic business

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

Equity financing in the domestic promotional lending business is to be undertaken by an independent wholly-owned subsidiary in the future. The details of the specific structure and preparations for the commencement of operation are currently being developed in a project. Planning calls for a total of EUR 2 billion in venture capital to be made available over the next ten years through participation in venture capital funds for start-ups and fast-growing, innovative tech companies, in order to strengthen Germany as a centre of technology. The incorporation of a subsidiary enables a focus on equity investments, while strengthening the professionalisation and marketability of equity financing within KfW Group. The subsidiary is to be incorporated at the beginning of 2018 and commence operations mid-year. Once the subsidiary has been formed, it will function as an independent business sector in KfW Group's domestic promotional business. An equity finance commitment volume of EUR 125 million is planned for 2018.

Mittelstandsbank (SME Bank) continues to regard itself as a reliable and goal-oriented partner of German SMEs and ministries, as well as its financing partners. With the combination of

in particular due to the fact that the ECB is expected to depart from its ultra-expansionary monetary policy by cautiously tapering bond purchases from 2018 onwards.

2. Digitalisation is changing SMEs' economic parameters for the long term (Industry 4.0). As a consequence, innovative ability and speed will remain key to the success of German companies and the German economy, and the main focal point of the Federal Government's promotional policy, including its "Digital Strategy 2025" and "High-tech Strategy".
3. Supporting the energy transition remains highly relevant as one of the German government's chief economic and environmental policy projects. The promotional areas renewable energy and energy efficiency, which are important in meeting the objectives of the Paris Agreement on climate change, are heavily dependent on the current national and European regulatory environment and thus also on the new federal government's energy policy course from 2018 onwards.

Mittelstandsbank plans a total commitment volume of EUR 19 billion for 2018, which is somewhat below the 2017 plan level.

The focus will remain on digitalisation of all dimensions of the promotional business (products, marketing and processes). By launching the new ERP innovation and digitalisation programme, alignment of innovation promotion to the future trend of digitalisation was already undertaken in 2017. For 2018, Mittelstandsbank plans to advance and expand promotion in this area through suitable product approaches. Systematic digitalisation of the promotional business also requires upgrading KfW's relevant IT systems. To this end, the "On-lending Online 2.0" distribution platform for Mittelstandsbank's first products as well as for a number of pilot sales partners paved the way in mid-2016 for the online application and approval of commercial promotional products. Additional sales partners are being gradually included and all on-lent commercial products integrated in 2018. With over 40% of its commitment volume, Mittelstandsbank remains an important financing partner in environmental and climate protection, particularly as part of the energy transition. Further development of the product offering as part of the Renewable Energy programme enables the bank to support the important integration of renewable energy into the overall energy system and offset the volume decreases expected as a result of the Renewable Energy Sources Act 2017 *(Erneuerbare-Energien-Gesetz – "EEG 2017").*

of the business sector is to continue to be a reliable partner to municipalities and municipal service companies as well as to the promotional institutions of the federal states *(Landesförder-institute)*. Moreover, support for leasing investment finance addresses the major importance of the SME client group.
Four major factors are expected to contribute to ongoing high demand in KfW's private client business in the medium term:

1. The persistent low interest rate environment and rising incomes promote investments in residential property.
2. Climate change and Germany's energy transition bolster demand in the housing-related programmes for Energy-efficient Construction and Refurbishment.
3. Demographic change requires increasing investments in the needs-based development of housing.
4. The necessary increase in intensity of education and the needs-based training of skilled workers result in continued funding needs in educational programmes for primary and secondary school pupils, university students and those in professional training.

In particular, the Energy-efficient Construction and Refurbishment programmes, successfully established on the market for ten years, positions KfW as a key promoter of environmental protection for private and public costumers and standard-setter for energy efficiency in residential and public buildings. The business sector pursues the strategic aim of "social change" within the framework of promotional activities through programmes to improve accessibility in existing properties, as well as through reliable and customer-focused financing offerings for housing. Moreover, the achievement of this strategic aim is underpinned by the continuation of the student loan programme and accompanying educational offerings for academic and professional qualifications. 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. As a financing partner to the promotional institutions of the federal states, the business sector aims to ensure a business volume of programme-based global loans at the current high level. The aim in "general funding", too, is to maintain the business volume at a high level. Due to the major importance of KfW's SME customer group, the business sector's traditional domestic promotional offering is complemented by global loans for lease financing and global loans to European commercial and promotional banks for SME and energy efficiency financing.

Financial markets

The business sector **Financial markets** invests in securitisation transactions in order to support improvement in the credit supply via capital market instruments. In this way, KfW contributes to the diversification and stabilisation of financing opportunities for SMEs in Germany and Europe.
SME-related securities investments of around EUR 1 billion are planned for 2018. The EIF-NPB Securitisation Initiative ("ENSI") of European promotional institutions, which was initiated by KfW and the European Investment Fund ("EIF"), continues its cooperation to strengthen capital market-based SME financing. KfW continues its purchase of green bonds to finance environmental and climate protection projects and further develop the green bond market. In 2017, the green bond portfolio target volume was raised by EUR 1 billion to EUR 2 billion, with an investment horizon of three to five years. The promotional mandate issued by the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety in 2015 was expanded accordingly. Green bond investments totalling EUR 300 million are planned for 2018.

For financial year 2018, the Financial markets business sector thus expects new business volume totalling EUR 1.3 billion.

International business

As a specialist financier and responsible partner, the **Export and project finance** business sector continues to pursue its objective of strengthening the German and European economies. Economic performance in the markets relevant to the business sector is stable in Germany and overall satisfactory in the OECD countries. There are indeed regions with growth potential in the relevant developing countries and emerging economies, such as the Andean states. Key markets such as Brazil, Russia and, in particular, Turkey continue to face challenges. Geopolitical risks, in North Korea and Iran, for example, are also relevant for the business sector. Overall, there is sufficient potential for German and European exporters and enterprises that invest in their competitiveness. Financing approaches can be developed for this purpose by the business sector.
The Export and project finance business sector (*i.e.*, the promotional business on KfW's balance sheet and the market business of KfW's subsidiary KfW IPEX-Bank) aims to sustainably support the German and European economies with project and export financing to maintain and increase competitiveness and internationalisation. Further sustainable development of structuring

the increased use of hedging instruments and transfer of risk to the market (PRI and syndication) as well as more active portfolio management and the associated increase in RWA optimisation of the loan portfolio. Overall, this should result in less volatile and more limited risk costs.
Normalisation of new business development already registered in 2016 continues its course in the Export and project finance business sector, resulting in an expected new business volume for financial year 2018 of EUR 16.3 billion, a 3% increase over the 2017 projection.

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

KfW Development Bank expects dynamic business growth to continue in the next few years:
In global development financing, collaboration with low-wage and fragile countries as well as emerging economies continues to be of major importance. In view of the high importance of refugee aid in Europe and combating the root causes of flight from native countries, combined with increased Federal Government responsibility in global environmental and climate protection, corresponding public funding (official development assistance – ODA) will be heavily increased. The Federal Ministry for Economic Cooperation and Development ("BMZ") focuses, among other things, on stabilising crisis countries and particularly Africa as a region. Against the background of the refugee influx, the European Commission announced an External Investment Plan (EIP) to combat the root causes of migration. The European Commission will set up regional platforms for financing which will include proven instruments but also an offer to assume risk for certain financings. In addition, assumption of the global indicator set to gauge the implementation success of the 2030 agenda raises the overall importance of the quality of promotion, monitoring and transparent presentation of effects. KfW Development Bank aims to quickly implement additional budget funds and increase new commitments accordingly as a means of supporting the Federal Government in expanding and globally positioning German Financial Cooperation. To this end, KfW will further expand its international climate financing in climate adaptation, demand-based energy efficiency and the addition of renewable energy to energy systems, among other areas. KfW Development Bank is thus responsible for a considerable share of Germany's contribution to achieving the objectives of the Paris Agreement on climate change. Support must KfW Development Bank will continue to expand its promotion from the current high level and expects new business volume of EUR 8.4 billion for 2018.

The economic environment for DEG's commitment in developing countries and emerging economies has improved overall, despite increasingly diverging outlooks for key DEG markets. At the same time, challenges, such as the lack of a reliable environment for private investors in less developed markets, persist. Private sector promotion as an indispensable factor in global partnership to achieve the sustainable development goals (SDGs) plays an important role in all markets. DEG's strategy is aimed at a sustainable business that is profitable and effective for development, as well as promoting the German economy in developing countries and emerging economies. Sustainable earnings ensure its risk-bearing capacity and organic growth. Profits are retained, thereby supporting DEG's capital base and enabling new investments. The activities of private companies are very important for the implementation of the SDGs. Private companies create jobs, generate local income and innovatively develop markets and sectors with their investments and activities. DEG has expanded its current financing and promotional offerings for German companies and teamed up with four local partner banks so far to establish 'German desks' in support of the German economy in developing countries and emerging economies. The aim is to improve access to local financing for German clients and their business partners and enhance mobilisation of German private funds. Regionally, DEG plans include strengthening its commitment in Africa, where it makes important contributions to the Federal Government's Africa initiatives via its role of providing signals to drive private sector commitment. DEG focuses on continuous development of its "Financing+" approach, which enables it as a value-added service provider to offer clients demand-based individual financing and advisory and other services, such as mobilisation of additional funds. As part of its targeted moderate growth, DEG plans new business volume of EUR 1.7 billion for 2018.

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 2018, taking into account market conditions and the strategic requirements of the Federal Government.

KfW's promotional business. KfW expects to raise

Earnings projections

In the current group earnings projections for 2018, KfW expects Consolidated profit (before IFRS effects) of approximately EUR 0.9 billion based on anticipated macroeconomic conditions. The expected result is thus just below the strategic objective level of EUR 1 billion. Contributions from Net interest income and Net commission income (in each case before promotional expense) are at a high level similar to that of previous years; however, the ongoing low interest environment may limit the potential for additional earnings contributions from interest rate and liquidity maturity transformation and consequently become an increasing burden on Total net interest income in subsequent years.

The planned Administrative expense for 2018 exceeds the amount planned for 2017 by 5.6%. The increase is primarily attributable to regulatory requirements combined with implementation of new market trends (equity finance and expansion of Financial Cooperation). As a consequence thereof, the expected cost-income ratio (CIR) before promotional expense has been raised to 44.9%.

The projected standard risk costs, which as a long-standing historical average are considerably higher for 2018 than the actual risk provisions for the lending business in 2017 will have a negative effect on earnings. Given the macroeconomic scenario on which the projections are based, the actual risk provisions for the lending business are not likely to reach the standard risk costs level for 2018 either. The achievement of the strategic consolidated profit objective therefore appears to be possible. Market conditions permitting, KfW also expects promotional expense in 2018 to be close to the previous budget.

KfW's business model is oriented towards the medium to long term; income from the lending business (interest rate margins and net commission income) in particular is very stable. **Opportunities and risks** for consolidated profit may arise above all for the treasury result from deviating market conditions in conjunction with KfW's positioning. In addition, opportunities and risks may arise for the valuations as a result of risk provisions that may vary from those planned as well as 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.

HR strategy/development of workforce

Adequate staffing is a key requirement for implementing KfW's business strategy.
In its continuous planning, the Executive Board adopts binding FTE ceilings each year for the KfW parent company (excl. KFW IPEX-Bank and DEG) for the entire budget period. These ceilings take into account all internal staff in order to ensure business operations in normal and crisis times and to be able to react flexibly to any changed situations and/or responsibilities.

To improve personnel cost management, numerous measures, such as improved management at group-level and establishment of a cost type manager for personnel costs, will be implemented over the next few years with the aim of raising cost awareness. The applicability of the Remuneration Regulation for Institutions *(Institutsvergütungsverordnung – "IVV")* as of 1 January 2018, which covers all of KfW's employees, and current cost objectives result in far-reaching changes. The project that has been developed to address such changes is aimed at the mandatory implementation of supervisory requirements on the compensation and performance management system. KfW is also implementing more stringent requirements on temporary employment and false self-employment.

In **HR development,** comprehensive talent and skills management is aimed at enabling professional and personal skills training suited to the needs of all employees and managers, and estabworking environment that is competitive on the market and that reinforces staff employability in the long term.

attention will be paid to diversity management in the future development of personnel measures and structures.

Digitalisation as an opportunity

The **digitalisation** of the economy drives productivity, innovation and new business models. The success of this change process requires investments in digital infrastructure, adequate data security and data protection plans and the relevant skills for employees.

One the one hand, KfW supports the digital transformation of the economy via its promotional activities, for example, with suitable products in domestic promotion, projects to promote digitalisation in Germany and abroad and development of digital platforms with suitable partners. On the other hand, KfW sees the technological applications driving digitalisation as a chance to improve its own promotional offeing. It thus takes a targeted approach to advancing the digital transformation at KfW with the aim of securing and further developing its promotional offering and increasing efficiency. To this end, the bank invests in digital solutions for streamlined, digital processing of promotional programmes (the digital on-lending system “BDO 2.0” and the KfW grant portal) and tests new technologies to optimise processes and workflows in the promotional business (e.g., piloting blockchains in development cooperation and bond trading).

The digital transformation at KfW also includes supporting the cultural change and employee training. The focus is on the long-term changes in working relationships, management and communication as a result of digitalisation. A digital academy serving as a central hub for exchanging knowledge and experience on digitalisation was created for this express purpose. Its expansion is a key factor in actively supporting employees in the change process accelerated by digitalisation.

Consolidated financial statements

Income statement

	Notes	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Interest income	(27)	7,296	8,420	–1,124
Interest expense	(27)	4,903	5,810	–907
Net interest income		**2,393**	**2,610**	**–217**
Risk provisions for lending business	(14), (28)	–209	–150	–58
Net interest income after risk provisions		**2,184**	**2,460**	**–275**
Commission income	(29)	331	336	–5
Commission expense	(29)	29	79	–51
Net commission income		**303**	**257**	**46**
Net gains/losses from hedge accounting	(9), (10)	591	294	297
Net gains/losses from other financial instruments at fair value through profit or loss	(10), (11), (31)	–397	55	–452
Net gains/losses from securities and investments	(15), (32)	0	–10	10
Net gains/losses from investments accounted for using the equity method	(5), (33)	22	21	1
Administrative expense	(34)	1,247	1,199	49
Net other operating income or loss	(35)	–2	102	–105
Profit/loss from operating activities		**1,453**	**1,980**	**–527**
Taxes on income	(19), (36)	26	–21	47
Consolidated profit		**1,427**	**2,002**	**–574**

Consolidated statement of comprehensive income

	Notes	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Consolidated profit		**1,427**	**2,002**	**–575**
Amounts reclassifiable to the income statement		**202**	**60**	**142**
Financial instruments	(15), (37)	208	59	149
Deferred taxes on financial instruments	(19), (37)	–6	0	–6
Investments accounted for using the equity method	(5), (37)	0	0	0
Amounts not reclassified to the income statement		**79**	**–207**	**286**
Defined benefit pension obligations	(21)	82	–221	303
Deferred taxes on defined benefit pension obligations	(19)	–3	15	–18
Other comprehensive income, total		**281**	**–147**	**428**
Consolidated comprehensive income		**1,708**	**1,855**	**–147**

Presentation of reclassification amounts included in the income statement

	2017	2016	Change
	EUR in millions	EUR in millions	EUR in millions
Amounts relating to the reclassification of financial instruments	6	8	–2
Amounts relating to the reclassification of deferred taxes on financial instruments	0	0	0
Amounts relating to the reclassification of investments accounted for using the equity method	0	0	0
Total	**6**	**8**	**–2**

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 are presented with a positive sign.

Assets

	Notes	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Cash reserves	(40)	11,087	11,573	–485
Loans and advances to banks	(8), (13), (14), (41)	274,296	275,922	–1,626
Loans and advances to customers	(8), (13), (14), (42)	127,951	136,704	–8,753
Risk provisions for lending business	(14), (43)	–1,457	–1,610	153
Value adjustments from macro fair value hedge accounting	(9), (44)	9,648	13,917	–4,269
Derivatives designated for hedge accounting	(9), (45)	9,074	27,464	–18,390
Other derivatives	(9), (10), (11), (46)	5,145	7,344	–2,199
Securities and investments	(15), (16), (47)	33,615	32,715	900
Investments accounted for using the equity method	(5), (48)	415	346	68
Property, plant and equipment	(17), (49)	950	931	19
Intangible assets	(18), (50)	252	235	17
Income tax assets	(19), (51)	498	540	–42
Other assets	(52)	872	932	–60
Total		**472,347**	**507,013**	**–34,666**

Liabilities and equity

	Notes	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Liabilities to banks	(11), (20), (53)	6,002	19,837	–13,835
Liabilities to customers	(11), (20), (54)	9,889	11,634	–1,745
Certificated liabilities	(20), (55)	406,290	422,574	–16,285
Value adjustments from macro fair value hedge accounting	(9), (56)	119	127	–8
Derivatives designated for hedge accounting	(9), (57)	14,488	18,451	–3,963
Other derivatives	(9), (10), (11), (58)	2,902	3,007	–105
Provisions	(8), (14), (21), (59)	2,877	2,865	12
Income tax liabilities	(19), (60)	272	324	–52
Other liabilities	(22), (61)	765	938	–173
Subordinated liabilities	(22), (62)	0	200	–200
Equity	(23), (63)	28,742	27,055	1,688
Paid-in subscribed capital		3,300	3,300	0
Capital reserve		8,447	8,447	0
Reserve from the ERP Special Fund		1,191	1,191	0
Retained earnings		15,500	14,092	1,407
Fund for general banking risks		600	600	0
Revaluation reserves	(5), (15), (21), (59)	–295	–576	281
Total		**472,347**	**507,013**	**–34,666**

Consolidated statement of changes in equity in the financial year 2017

	As of 1 Jan. 2017	Changes in consolidated group	Owner-related changes in equity	Appropriation of consolidated comprehensive income 2017	Total as of 31 Dec. 2017
	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	8,447	0	0	0	8,447
of which promotional reserves from the ERP Special Fund	*7,150*	*0*	*0*	*0*	*7,150*
Reserve from the ERP Special Fund	1,191	0	0	0	1,191
Retained earnings	14,092	–20	0	1,427	15,500
Statutory reserve under Article 10 (2) KfW Law	*1,875*	*0*	*0*	*0*	*1,875*
Special reserve under Article 10 (3) KfW Law	*8,312*	*0*	*0*	*895*	*9,207*
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	*3,885*	*–20*	*0*	*532*	*4,396*
Fund for general banking risks	600	0	0	0	600
Revaluation reserves	–576	0	0	281	–295
Valuation results from financial instruments (after tax)	*75*	*0*	*0*	*202*	*277*
Investments accounted for using the equity method	*0*	*0*	*0*	*0*	*0*
Actuarial gains and losses from defined-benefit plan pension obligations (after tax)	*–650*	*0*	*0*	*79*	*–572*
Equity	**27,055**	**–20**	**0**	**1,708**	**28,742**

KfW’s net income amounting to EUR 895 million was used to increase the special reserve under Article 10 (3) of the KfW Law.

The difference to the consolidated comprehensive income is allocated to Other retained earnings or – if recognised directly in equity – to Revaluation reserves.

	other fixed-income securities	other non-fixed income securities	investments	deferred taxes	accounted for using the equity method	
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2017	**75**	**0**	**0**	**0**	**0**	**75**
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	0	0	0	0	0	0
Amortisation after reclassification	6	0	0	0	0	6
Changes in consolidated group	0	0	0	0	0	0
Total changes recognised in the income statement	**6**	**0**	**0**	**0**	**0**	**6**
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	38	0	165	–6	0	196
Total changes recognised directly in equity	**38**	**0**	**165**	**–6**	**0**	**196**
Exchange rate changes	0	0	0	0	0	0
As of 31 Dec. 2017	**118**	**0**	**165**	**–6**	**0**	**277**

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 2017

	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. 2017	**–685**	**35**	**–650**
Changes recognised directly in equity			
Changes in revaluation reserves due to changes in actuarial gain or loss valuation parameters	82	–3	79
As of 31 Dec. 2017	**–603**	**32**	**–572**

	As of 1 Jan. 2016	Changes in consolidated group	Owner-related changes in equity	Appropriation of consolidated comprehensive income 2016	Total as of 31 Dec. 2016
	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	8,447	0	0	0	8,447
of which promotional reserves from the ERP Special Fund	*7,150*	*0*	*0*	*0*	*7,150*
Reserve from the ERP Special Fund	1,191	0	0	0	1,191
Retained earnings	12,091	0	0	2,002	14,092
Statutory reserve under Article 10 (2) KfW Law	*1,875*	*0*	*0*	*0*	*1,875*
Special reserve under Article 10 (3) KfW Law	*7,022*	*0*	*0*	*1,290*	*8,312*
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	*3,173*	*0*	*0*	*712*	*3,885*
Fund for general banking risks	600	0	0	0	600
Revaluation reserves	–429	0	0	–147	–576
Valuation results from financial instruments (after tax)	*15*	*0*	*0*	*60*	*75*
Investments accounted for using the equity method	*0*	*0*	*0*	*0*	*0*
Actuarial gains and losses from defined-benefit plan pension obligations (after tax)	*–443*	*0*	*0*	*–207*	*–650*
Equity	**25,200**	**0**	**0**	**1,855**	**27,055**

accounted for using the equity method in the financial year 2016

	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. 2016	**15**	**0**	**0**	**0**	**0**	**15**
A. Changes recognised in the income statement						
Decrease due to disposals	–3	0	0	0	0	–3
Increase due to disposals	0	0	0	0	0	0
Decrease due to impairments	0	0	0	0	0	0
Amortisation after reclassification	11	0	0	0	0	11
Changes in consolidated group	0	0	0	0	0	0
Total changes recognised in the income statement	**8**	**0**	**0**	**0**	**0**	**8**
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	52	0	0	0	0	52
Total changes recognised directly in equity	**52**	**0**	**0**	**0**	**0**	**52**
Exchange rate changes	0	0	0	0	0	0
As of 31 Dec. 2016	**75**	**0**	**0**	**0**	**0**	**75**

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 2016

	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. 2016	**–463**	**20**	**–443**
Changes recognised directly in equity			
Changes in revaluation reserves due to changes in actuarial gain or loss valuation parameters	–221	15	–207
As of 31 Dec. 2016	**–685**	**35**	**–650**

	2017 EUR in millions	2016 EUR in millions
Consolidated profit	**1,427**	**2,002**
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	401	451
Changes in other provisions	190	172
Other non-cash expenses and income:		
Profit/loss from the disposal of securities and investments and property, plant and equipment	–16	5
Other adjustments	–2,920	–3,089
Subtotal	**–919**	**–460**
Changes in assets and liabilities from operating activities after adjustment for non-cash items:		
Loans and advances to banks	1,798	1,359
Loans and advances to customers	8,433	–2,475
Securities	–704	–967
Other assets relating to operating activities	25,438	9,751
Liabilities to banks	–13,835	–4,166
Liabilities to customers	–1,745	2,010
Certificated liabilities	–16,285	7,374
Other liabilities relating to operating activities	–4,362	–3,349
Interest and dividends received	6,902	7,960
Interest paid	–4,717	–5,618
Income tax paid	–56	–34
Cash flow from operating activities	**–50**	**11,384**
Property, plant and equipment:		
Cash proceeds from disposals	2	1
Cash payments for acquisitions	–131	–149
Securities and investments (equity investments):		
Cash proceeds from disposals/Cash payments for acquisitions	–86	–123
Cash flow from investing activities	**–215**	**–271**
Cash proceeds from/(cash payments for) capital increases/(decreases)	0	0
Changes from other financing activities	–200	0
Cash flow from financing activities	**–200**	**0**
Cash and cash equivalents as of the end of the previous period	**11,573**	**460**
Cash flow from operating activities	–50	11,384
Cash flow from investing activities	–215	–271
Cash flow from financing activities	–200	0
Cash and cash equivalents as of the end of the period	**11,108**	**11,573**

foreign exchange rate changes amounting to EUR –94 million (2016: EUR +27 million).

For more information on KfW Group’s liquidity risk management, see “Risk report – Liquidity risk”.

The cash adjustment amounting to EUR 200 million reported in Cash flow from financing activities solely concerns the early repayment of the subordinated loan (Note 62).

Notes

(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 27 February 2018[1)], no significant events have occurred since the reporting date (31 December 2017).

As of 31 December 2017, KfW Group comprises KfW and four subsidiaries that are fully consolidated. Due to deconsolidation of tbg Technologie-Beteiligungs-Gesellschaft mbH effective 31 December 2017, the number of subsidiaries has declined by one compared to the previous year. Similar to the previous year, one joint venture and four associated companies are accounted for using the equity method.

Pursuant to Section 315e (1) of the German Commercial Code *(Handelsgesetzbuch – "HGB")*, the consolidated financial statements as of 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and with the interpretations set out by the IFRS Interpretations Committee (IFRS IC), 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, 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 companies included in the consolidated financial statements have prepared their annual financial statements as of 31 December 2017, except for some associated companies accounted for using the equity method, where financial statements as of 30 September 2017 were used. Material events for the latter companies as of the reporting date were also taken into account.

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).

[1)] Date of Executive Board approval of publication

As a general rule, assets and liabilities are measured at the reporting date at (amortised) cost, with the exception of the following financial instruments:

- designated financial instruments measured at fair value through profit or loss
- financial instruments classified as held for trading and measured at fair value through profit or loss
- 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. Material judgements, estimates and assumptions are required, in particular, for calculating risk provisions (including risk provisions for contingent liabilities and irrevocable loan commitments), recognising and measuring provisions (primarily for pension liabilities and legal risks), measuring the fair value of financial instruments based on valuation models (including determining the existence of an active market), 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 judgements as well as 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 economy and financial markets, however, such deviations and uncertainties cannot be fully ruled out. These risks are nevertheless low because valuation models – especially those involving the use of inputs not based on observable market data – are employed to measure only small parts of the securities and investments portfolio and borrowings measured at fair value, on the one hand, and only a small portion of financial derivatives used to economically hedge risk, on the other hand.

Further material decisions in the application of accounting policies concern the voluntary early application of new or amended IFRS standards/IFRIC interpretations, 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 reporting of economic hedging relationships and the creation of classes as part of disclosing information on financial instruments.

Amendments to IAS 7), applied for the first time, did not have any impact on the group's net assets, financial position and results of operations.

B. Impact of new or amended IFRS/IFRIC interpretations to be adopted in the future that were endorsed by the EU into European law before the reporting date

In July 2014, the IASB published IFRS 9 "Financial Instruments", which will replace IAS 39 "Financial Instruments: Recognition and Measurement". The standard – transposed into European law in November 2016 – is effective for financial years beginning on or after 1 January 2018. IFRS 9 contains new rules for classification and measurement of financial instruments and for impairment and hedge accounting.

The balance sheet will be affected by revised rules regarding the classification and measurement of financial assets. We expect an increase in equity of around EUR 30 million to EUR 40 million as a result of loans and advances being measured at fair value through profit or loss, rather than as previously at amortised cost. In addition, retrospective reclassification of securities from "available-for-sale financial assets" to "financial assets carried at amortised cost" will reduce equity by an amount ranging from approximately EUR 110 million to EUR 150 million.

There will also be effects from changes in impairment requirements. Moving from the incurred loss model to an expected loss model where risk provisions will be measured on the basis of the change in credit risk since the initial recognition of the financial instrument is expected to result in higher risk provisions. The negative impact on equity is likely to range from approximately EUR 140 million to EUR 180 million.

Implementation of the rules under IFRS 9 will likely reduce group equity by a total amount ranging from approximately EUR 200 million to EUR 270 million (taking into account deferred taxes; quantitative information is estimated; there are no audited IFRS 9 figures available). Application of the IFRS 9 requirements has been designed, implemented in the IT infrastructure and tested in recent years as part of a major project. Comprehensive courses and training seminars were also held to anchor specialist and IT knowledge across functions.

IFRS 9 monthly financial statements have already been prepared in parallel operations since August 2017, serving as a basis for assessing technical and process operability. The development of the accounting approach has largely been concluded, comprising in particular the derivation of measurement categories for financial instruments and the method for determining expected loss-based risk provisions. In this process, individual portfolio business models were identified and confirmed by the Executive Board and contracts analysed for ancillary agreements.

The rules for financial liabilities, in contrast, will remain largely unchanged. When using the *fair value option*, however, the changes in fair value that result from changes in own credit risk will need to be recognised directly in equity in the revaluation reserve in future. There was an option for early application of this rule, which KfW did not exercise.

According to IFRS 9, changes in the contractual cash flows resulting from insignificant contractual modifications which do not lead to derecognition must be recognised in the income statement at present value. In the practice of credit restructuring, contractual modifications are normally undertaken in such a way that no significant present value loss is incurred.

Changes due to new requirements for the impairment of financial assets are another major measurement issue. Moving from the incurred loss model to the expected loss model effects comprehensive changes in impairment requirements. In determining expected losses, the change in credit risk will be tracked from initial recognition of a financial instrument. If there has been a significant deterioration of the credit risk on a financial asset (stage 2) or objective evidence of impairment is identified (stage 3), expected credit losses are to be recognised over the full remaining life of the asset. Otherwise only the expected losses over the life of the instrument associated with the possibility of a default in the next twelve months are to be recognised (stage 1).

A corresponding method for allocating stages was developed and implemented for this in the group. Information already used in Risk Controlling such as ratings and days past due as well as information on financial concessions (forbearance) was used. In addition, the existing methods for determining the expected losses were modified to meet IFRS 9 requirements. This included in particular the introduction of a point-in-time view of expected losses that also takes forward-looking (macroeconomic) information adequately into account.

The option to determine the lifetime expected credit losses of all existing financial instruments (provided they are not low credit risk) at the date of initial application and at each subsequent reporting date was not utilised.
With regard to hedge accounting, no material implications are expected for the consolidated financial statements, as the option to continue applying the requirements under IAS 39 until the accounting rules on representing dynamic risk management enter into effect is being utilised.

The group will also utilise the option to not use comparative figures in the 2018 consolidated financial statements, in transitioning to IFRS 9.

rate and which are to be reported under Commission income. In this context, a five-step principle-based model is to be applied to relevant customer contracts. Moreover, the Notes are to include comprehensive detailed quantitative and qualitative information. IFRS 15 does not apply to fees and charges which are an integral part of the effective interest rate as they fall under the scope of IFRS 9. The IAS 18 requirements on consideration for financial services largely correspond to those contained in IFRS 9.

The application of IFRS 15 for KfW largely concerns mandate contractual arrangements with the Federal Government as contracting authority for administrative activities. As performance obligations are mostly satisfied over time, revenue from customer contracts is currently already recognised according to the measure of progress and is thus normally period-based. Point-in-time-based consideration paid in the form of one-off payments is of minor importance.
Applying IFRS 15 therefore will not result in any major changes for KfW compared to IAS 18 and consequently will not have any material impact on the group's net assets, financial position and results of operations. There will be no major need for adjustment to retained earnings as of 1 January 2018 with respect to the partially retrospective adjustment undertaken by KfW in accordance with IFRS 15.C3(b).

In January 2016, the IASB published the new IFRS 16 “Leases” standard, replacing IAS 17 “Leases”, IFRIC 4 “Determining Whether an Arrangement Contains a Lease”, SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”. The standard is to be applied for financial years beginning on or after 1 January 2019. Implementation of the new accounting model means that in future, for all leases, lessees must recognise each right of use as an asset and the associated lease obligation as a liability on the balance sheet. Application is optional for leases with a term of less than 12 months or if the underlying asset is of low value.

The effects on net assets, financial position and results of operations (particularly for KfW and KfW IPEX-Bank) will result primarily from buildings rented by KfW Group. The respective rights of use must be accordingly recognised on the balance sheet in future. These items currently relate to an operating lease in accordance with IAS 17; the related leasing expenses are recognised in the income statement.

An early application of IFRS 16 together with the introduction of IFRS 15 “Revenue from Contracts with Customers” as of 1 January 2018 is not planned.

(4) Group of consolidated companies

All significant subsidiaries, joint ventures 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.

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 group's share of the profits or losses of 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. Their 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 classified as 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. An assessment will be performed as of every balance sheet date as to whether there is objective evidence of impairment (default criteria). 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 payments more than 90 days past due (taking a marginality limit into account), anticipated non-fulfilment of payment obligations or disposal of loans or advances at significant loss due to deterioration in the borrower's credit rating.

initial recognition, 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 associated with 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 belonging to the *financial assets and liabilities classified as 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 or selling them. KfW Group does not enter into any transactions with the intention of generating a short-term profit. Instruments may be held in the group for short-term sale in anticipation of a loan syndication in export and project financing business. These are recognised under Loans and advances to banks and customers. Interest income is presented in Net interest income while changes in fair value are presented in Net gains/losses from other financial instruments at fair value through profit or loss. 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 designated 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 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 the group, this category covers funding reported in Liabilities to banks and customers, Certificated liabilities and Subordinated liabilities.

Derivatives are derecognised as of the trade date; all other financial assets as of the settlement date. 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 resolved to make use of its option to reclassify its asset-backed securities retrospectively 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 they were to be held through to maturity.
In addition, by resolution dated 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.

transactions and loans and advances) or on the line items of the statement of financial position comprising these products. The balance sheet items thus generally reflect a view based on the material risks encompassed by each 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). Information about the type and extent of risks associated with financial instruments is also provided in the risk report section of the group management report.

(7) Financial instruments: valuation techniques

KfW Group initially recognises financial instruments at fair value.

Financial instruments subsequently measured at amortised cost are 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 or 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 data not observable in a market”)
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

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 transaction.) These economic reasons only apply to a small part of the derivative portfolio of KfW Group, which comprises a hedging instrument for customers 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.

This (valuation) hierarchy is applied in the 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 calculated for the respective reporting date is used to correct the contractual cash flows.

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. This market is characterised by the fact that promotional banks, as part of their legal mandate, pass on all advantages of funding projects eligible for promotion to the ultimate borrowers. In setting the terms and conditions of the corresponding promotional loans, KfW uses its current term-differentiated refinancing rates.

At initial recognition of such loans, the fair value is thus 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 position. 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 from such loan commitments – 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

KfW Group enters into financial derivatives to economically hedge interest rate fluctuation 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 also be recognised in the financial statements through bifurcation of separable 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 instruments 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 in the group is used solely in the form of fair value hedges to recognise hedging relationships. The hedging relationship is designated, firstly, at individual transaction and group level in the form of micro fair value hedge accounting, and, secondly, at portfolio level in the form of macro fair value hedge accounting. Micro fair value hedging relationships at group level are created exclusively to hedge the foreign currency exposure. If risk-free overnight interest rates are used in the valuation of the derivatives, this market practice is also subject to micro fair value hedge accounting for the measurement of the hedged risk related to the hedged item. The hedged risk in macro fair value hedge accounting relates to the variable interest rates of the derivative portfolio. 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, funding (*other liabilities* category). In micro fair value hedging relationships at individual transaction level, 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 used for this purpose 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 currency-related changes in value of the hedged items and hedging instruments in micro fair value hedging relationships at group level are presented in Net gains/ losses from other financial instruments at fair value through profit or loss.

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 cash flows from hedging instruments are derecognised while the economic hedge based on non-derivative financial instruments remains, 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 in certain circumstances. 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 used to hedge risks, but their economic effects cannot be reflected in the accounts. The fair values of these hedging instruments are also recognised in the Other derivatives item, with changes in fair value being 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 enter into derivatives acting as a 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 separable embedded derivatives 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 separable 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

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. Some of 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* has not been used to avoid an *accounting mismatch,* 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 non-separable embedded financial guarantees 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 rates if they are measured at (amortised) cost.
Translation is made 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, along with the pending syndication business in the business sector Export and project finance, which is measured at fair value. 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 generally recorded under Interest income. If, due to the low interest environment, negative interest rates arise from a financial asset, these are recorded in Interest expense. 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.

advances and money market investments, including reverse repurchase agreements (reverse repos), 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 present value 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 homogeneous sub-portfolios and collectively assessed for impairment on the basis of the default risks identified. Any reversals of collective 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 lending volume (based on the carrying amount) as of the reporting date, the expected loss given default and one-year probabilities of default (given an 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 impairment 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.

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 recognised at fair value and subsequently measured depending on the measurement category to which they are assigned.

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.
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 or 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 and modalities of collateral and its use 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 term 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 term of the reverse repurchase agreements.

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. KfW Group assumes a useful life of five years, based on the expected economic life of the assets.
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 permanent establishments are determined according to the tax laws in the country of domicile. 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 funding carried at amortised cost and KfW Group’s money-market transactions. Certificated liabilities contain issued bonds, notes and money-market instruments. Own issues repurchased in the open market 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, separable embedded derivatives are bifurcated and accounted for as stand-alone derivatives.

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, credit risks, interest rate reductions in irrevocable loan commitments granted by KfW in the promotional lending business and negatively impacting its earnings position, 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 pension plans, consisting exclusively of defined-benefit schemes. 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 after deducting 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 fluctuation, 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 fluctuation risks.

Pension adjustment risk largely relates to the pension plan offering a full pension *(Gesamtversorgung).* In this scheme, 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 and amended accordingly.

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.

Pension obligations are calculated by an independent qualified actuary 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

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.

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 or 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 Deutsche Industriebank (“IKB”)^ 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. This also includes commitments for loans that are intended for placement in syndicate transactions. Irrevocable loan commitments 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.

operating leases. The corresponding rental income is recognised in Other operating income.

(27) Net interest income

Analysis of Net interest income by class

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Interest and similar income from loans and advances to banks and customers	7,138	7,849	–712
Similar income from financial guarantees	21	25	–5
Interest income from securities and investments	271	378	–107
Interest income from derivatives	–527	–292	–235
Other interest income	394	460	–66
Interest income	**7,296**	**8,420**	**–1,124**
Interest and similar expense for liabilities to banks and customers	378	383	–5
Interest expense for certificated liabilities	6,939	7,587	–648
Interest expense for subordinated liabilities	2	3	–1
Interest expense for derivatives	–2,720	–2,442	–278
Other interest expense	304	279	24
Interest expense	**4,903**	**5,810**	**–907**
Total	**2,393**	**2,610**	**–217**

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 186 million (2016: EUR 193 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, the Other interest expense also comprises the expenses arising from amortisation at a constant effective interest rate. Interest and similar income from loans and advances to banks and customers also comprises income of EUR 360 million (2016: EUR 421 million) from accrual-based amortisation in the amount of the pro-rata nominal planned interest rate reductions for these promotional loans.

Income from unwinding in the amount of EUR 24 million (2016: EUR 32 million) is reported under Interest and similar income from loans and advances to banks and customers.

The Interest and similar income from loans and advances to banks and customers comprises EUR 68 million (2016: EUR 51 million) in certificated liabilities and liabilities-side money-market transactions. The Interest and similar expenses for liabilities to banks and customers comprises EUR 179 million (2016: EUR 112 million) from assets-side money-market transactions, balances with central banks and holding arrangements of the Federal Republic of Germany. This is due to the negative interest contributions as a result of the low interest environment.

assets (floating rate financial assets) or hedged financial liabilities (floating rate financial liabilities).

Analysis of interest income from securities and investments

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Interest income from bonds and other fixed-income securities	223	318	–95
Income from equity investments	48	51	–4
Income from shares in subsidiaries not included in the consolidated financial statements	0	9	–9
Total	**271**	**378**	**–107**

(28) Risk provisions for lending business

Analysis of Risk provisions by transaction

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Expense for allocations to risk provisions	529	667	–138
Direct write-offs	52	78	–25
Expense for risk provisions	**581**	**744**	**–163**
Income from the release of risk provisions	266	378	–112
Income from recoveries of amounts previously written off	107	216	–109
Income from risk provisions	**373**	**594**	**–221**
Total	**–209**	**–150**	**–58**

Commission income from lending business	124	133	–9
Other commission income	207	203	5
Income from trust activities	0	1	0
Commission income	**331**	**336**	**–5**
Commission expense for lending business	17	50	–33
Commission expense for credit derivatives	0	1	0
Other commission expense	11	29	–18
Commission expense	**29**	**79**	**–51**
Total	**303**	**257**	**46**

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 in the business sector Promotion of developing countries and emerging economies in the amount of EUR 180 million (2016: EUR 175 million).

(30) Net gains/losses from hedge accounting

Analysis of Net gains/losses from hedge accounting by type of hedging relationship

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Micro fair value hedge accounting	93	45	48
Macro fair value hedge accounting	498	249	249
Total	**591**	**294**	**297**

Net gains/losses from macro fair value hedge accounting comprise the valuation of hedging instruments in the amount of EUR 2,182 million (2016: EUR –2,904 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.

Hedging of liabilities to banks and customers	[illegible]	[illegible]	[illegible]
Hedging of certificated liabilities	91	44	48
Subtotal: Effectiveness of hedges	**92**	**44**	**48**
Amortisation of value adjustments	1	1	0
Total	**93**	**45**	**48**

Gross analysis of valuation gains/losses from micro fair value hedge accounting: Comparison of hedged items and hedging instruments in the financial year 2017

	Hedged items	Hedging instruments	Effectiveness of hedges
	EUR in millions	EUR in millions	EUR in millions
Hedging of securities and investments	–198	198	0
Hedging of liabilities to banks and customers	111	–112	–1
Hedging of certificated liabilities	2,109	–2,018	91
Hedging of subordinated liabilities	3	–2	1
Total	**2,025**	**–1,933**	**92**

Gross analysis of valuation gains/losses from micro fair value hedge accounting: Comparison of hedged items and hedging instruments in the financial year 2016

	Hedged items	Hedging instruments	Effectiveness of hedges
	EUR in millions	EUR in millions	EUR in millions
Hedging of securities and investments	–120	120	1
Hedging of liabilities to banks and customers	–13	12	–1
Hedging of certificated liabilities	2,286	–2,243	44
Hedging of subordinated liabilities	5	–4	0
Total	**2,158**	**–2,115**	**44**

	2017	2016	Change
Assets	**–54**	**74**	**–128**
Liabilities to banks and customers	74	–15	89
Certificated liabilities	74	122	–48
Liabilities	**148**	**107**	**40**
Financial derivatives not qualifying for hedge accounting	–459	–128	–331
Credit derivatives	–11	2	–13
Derivative financial instruments	**–470**	**–126**	**–344**
Foreign currency translation	–20	0	–20
Total	**–397**	**55**	**–452**

Net gains/losses from Liabilities to banks and customers include the result of the credit-linked notes issued using the PROMISE and PROVIDE synthetic securitisation platforms. The net gains/losses from Credit derivatives include the result from the portfolio CDSs concluded via 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 the lending and equity finance business which are separable. 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 measured at fair value by product type

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Bonds and other fixed-income securities	–3	–4	1
Equity investments	–52	78	–129
Total	**–54**	**74**	**–128**

Analysis of net gains/losses from credit derivatives and credit-linked notes from the PROMISE and PROVIDE synthetic securisation platforms measured at fair value

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
CDSs	–11	2	–13
Issued credit-linked notes	11	–2	13
Total	**0**	**0**	**0**

Gross analysis of results from economically hedged borrowings: Comparison of hedged items and hedging instruments

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Borrowings	137	110	27
Hedging instruments	–349	74	–423
Total (Net effect of economic hedges)	**–212**	**183**	**–395**

(32) Net gains/losses from securities and investments

Analysis of Net gains/losses from securities and investments by class

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Bonds and other fixed-income securities	25	23	2
Shares and other non-fixed income securities	0	0	0
Equity investments	–25	–25	0
Shares in subsidiaries not included in the consolidated financial statements	0	–8	8
Total	**0**	**–10**	**10**

The net gains/losses from securities and investments 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 79 million (2016: EUR 106 million), for which the fair value could not be reliably determined, were disposed of. This generated a realised net gain of EUR 12 million (2016: EUR –8 million), which is contained in the net gains/losses from equity investments.

Disclosures on impairment of securities and investments

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Securities and investments	43	32	11
Bonds and other fixed-income securities	*1*	*3*	*–2*
Equity investments	*42*	*20*	*21*
Shares in subsidiaries not included in the consolidated financial statements	*0*	*9*	*–9*

Disclosures on the reversal of impairment losses from securities and investments

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Securities and investments	25	23	2
Bonds and other fixed-income securities	*25*	*23*	*2*

(33) Net gains/losses from investments accounted for using the equity method

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Net gains/losses from investments accounted for using the equity method	22	21	1

(34) Administrative expense

Analysis of Administrative expense

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Wages and salaries	517	506	11
Social security contributions	73	68	5
Expense for pension provision and other employee benefits	78	61	18
Personnel expense	**668**	**634**	**34**
Other administrative expense	487	456	31
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	92	108	–16
Non-personnel expense	**579**	**565**	**15**
Total	**1,247**	**1,199**	**49**

Other administrative expenses include rental expenses arising from Operating leases in the amount of EUR 14 million (2016: EUR 13 million).

(35) Net other operating income or loss

Analysis of Net other operating income or loss

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Other operating income	36	135	–99
Other operating expense	39	33	6
Total	**–2**	**102**	**–105**

Other operating income includes income from the reversal of other provisions and accruals in the amount of EUR 17 million (2016: EUR 18 million) and income from repurchasing own issues in the amount of EUR 5 million (2016: EUR 1 million). Income from the waiver of repayment of a part of the ERP subordinated loan in the amount of EUR 100 million was collected in 2016.

Other operating expense includes contributions payable by KfW IPEX-Bank GmbH to the restructuring fund for banks in the amount of EUR 13 million (2016: EUR 11 million). KfW is not obligated to contribute to the fund in accordance with Section 2 of the Restructuring Fund Act *(Restrukturierungsfondsgesetz – “RStrukFG”).*

(36) Taxes on income

Analysis of Taxes on income by component

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Current taxes on income	36	36	0
Deferred taxes	–10	–58	47
Total	**26**	**–21**	**47**

Deferred tax assets resulted in tax income of EUR 10 million (2016: EUR 58 million in tax income). This resulted from the changed recognition of temporary differences and the recognition of tax loss carryforwards.

The reconciliation presents the relationship between the calculated income tax expense for the financial year and reported taxes on income.

Tax reconciliation

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Profit/loss from operating activities (before taxes)	1,453	1,980	–527
Group income tax rate	0%	0%	0%
Calculated income tax expense	**0**	**0**	**0**
Effects of tax rate differentials within the group	32	9	23
Effect of tax rate changes	0	0	0
Effects of previous year taxes recorded in the reporting year	2	2	0
Effects of non-deductible taxes on income	7	7	0
Effects of non-deductible business expenses	14	12	2
Effects of tax-free income	1	16	–15
Trade tax add-ons/reductions	1	1	0
Permanent accounting differences	–2	0	–2
Effects of changes in recognised deferred tax assets	–29	–68	39
Reported taxes on income	**26**	**–21**	**47**

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

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Amounts reclassifiable to the income statement	**202**	**60**	**142**
Financial instruments	208	59	149
Bonds and other fixed-income securities	*44*	*59*	*–16*
Shares and other non-fixed income securities	*0*	*0*	*0*
Equity investments	*165*	*0*	*165*
Deferred taxes on financial instruments	–6	0	–7
Investments accounted for using the equity method	0	0	0
Amounts not reclassified to the income statement	**79**	**–207**	**285**
Defined benefit pension obligations	82	–221	303
Deferred taxes on defined benefit pension obligations	–3	15	–18
Total	**281**	**–147**	**428**

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 obligations, and changes in deferred taxes reported depending on the underlying transaction.

Analysis of reclassification amounts included in the income statement by class

	2017 EUR in millions	2016 EUR in millions	Change EUR in millions
Amounts relating to the reclassification of financial instruments	6	8	–2
Bonds and other fixed-income securities	*6*	*8*	*–2*
Shares and other non-fixed income securities	*0*	*0*	*0*
Equity investments	*0*	*0*	*0*
Subordinated assets	*0*	*0*	*0*
Amounts relating to the reclassification of deferred taxes on financial instruments	0	0	0
Amounts relating to the reclassification of investments accounted for using the equity method	0	0	0
Total	**6**	**8**	**–2**

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 are presented with a positive sign.

(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 investments and industrial pollution control investments – Equity financing
Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	– Financing for housing construction and modernisation – Education financing – Infrastructure and social finance – Global funding of promotional institutions of the German Federal States *(Landesförderinstitute)* – Individual financing of 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 line with German and European interests
Promotion of developing countries and emerging economies	– Promotion of developing countries and emerging economies 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)
Financial 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 expense) comprises interest margins from lending business 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 and spread management. The profit contribution from KfW funding[2] is allocated to the Financial markets business sector.
- The promotional expense included in interest, commission and administrative expenses in the income statement is reported separately pursuant to the internal management report due to the special relevance of promotional expense as a management variable.

[1] Funding at matching maturities using KfW's internal refinancing curve is assumed for the calculation of interest margins under this method.
[2] The difference between the realised refinancing rates and the maturity-matched refinancing rates calculated in-house.

Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kredit-institute (Municipal and Private Client Bank/Credit Institutions) with a positive impact on the achievement of KfW's promotional objectives. Promotional expense primarily consists of additions of the interest rate reductions[3)] accounted for at present value from new commitments and also comprises the compounding effect. Additional support components are the expense for consultancy grants (until 31 December 2016) and sales partner incentives through upfront fees (included in Commission expense) as well as for available and product-related marketing and sales measures (included in Administrative expense).

– The allocation of Administrative expense (before promotional expense) is based on the results from activity-based accounting by cost centres.[4)] Administrative expense (before promotional expense) 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.

– 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 covers all types of risk under the definition of economic capital requirements in the risk report section of the group management report.

– Segment assets are not reported as, in accordance with the internal management reporting system, they are used neither to assess each segment's performance nor to allocate resources to segments.

– 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 are adjusted in segment reporting. Any remaining negligible consolidation effects are reported in the reconciliation/consolidation column.

[3)] See note regarding "KfW's promotional lending business" 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 (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) business sectors. The compounding effect on the present values contained in interest expense is allocated to the Head office for simplicity's sake.
[4)] The costs incurred in the organisational units are largely allocated to the products by means of core services.

	Mittelstandsbank (SME Bank)[1]	Kommunal- und Privatkundenbank/ Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	Export and project finance[1]	Promotion of developing countries and emerging economies[1]	Financial 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
Volume of new commitments	**21,899**	**29,913**	**13,751**	**9,749**	**1,541**	**0**	**–372**	**76,481**
Net interest income (before promotional expense)	205	366	798	381	235	596	–3	2,579
Net commission income (before promotional expense)	6	91	21	198	0	0	0	316
Administrative expense (before promotional expense)	185	275	238	389	88	58	0	1,234
Operating result before valuation (before promotional expense)	**25**	**183**	**581**	**189**	**147**	**539**	**–3**	**1,661**
Risk provisions for lending business	1	–80	–89	–42	2	0	0	–209
Valuation result	31	0	–2	–31	4	209	3	214
Profit/loss from operating activities (before promotional expense)	**57**	**103**	**489**	**117**	**152**	**748**	**0**	**1,667**
Promotional expense	176	17	0	0	0	20	0	213
Taxes on income	1	0	21	10	0	–5	0	26
Consolidated profit	**–120**	**86**	**469**	**107**	**152**	**733**	**0**	**1,427**
Economic capital requirement	**3,593**	**5,289**	**1,307**	**1,947**	**1,137**	**4,956**	**0**	**18,228**

[1] The valuation result of the business sectors contains the following net gains/losses from investments accounted for using the equity method: Mittelstandsbank (SME Bank) EUR –2.8 million, Export and project finance EUR 17.4 million and Promotion of developing countries and emerging economies EUR 7.2 million.

	Mittelstandsbank (SME Bank)[1]	Kommunal- und Privatkundenbank/ Kreditinstitute (Municipal and Private Client Bank/Credit Institutions)	Export and project finance[1]	Promotion of developing countries and emerging economies[1]	Financial 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
Volume of new commitments	**21,388**	**33,698**	**16,072**	**8,844**	**1,274**	**0**	**–273**	**81,002**
Net interest income (before promotional expense)	205	380	853	400	224	742	0	2,802
Net commission income (before promotional expense)	12	54	26	195	–7	0	0	280
Administrative expense (before promotional expense)	177	263	233	364	92	54	0	1,185
Operating result before valuation (before promotional expense)	**39**	**171**	**645**	**230**	**124**	**688**	**0**	**1,898**
Risk provisions for lending business	21	–37	–134	–93	0	93	0	–150
Valuation result	12	–8	–13	78	13	380	1	463
Profit/loss from operating activities (before promotional expense)	**72**	**126**	**499**	**215**	**138**	**1,160**	**1**	**2,210**
Promotional activity	170	32	0	0	0	28	0	230
Taxes on income	0	0	14	15	0	–51	0	–21
Consolidated profit	**–98**	**94**	**484**	**200**	**138**	**1,183**	**1**	**2,002**
Economic capital requirement	**1,938**	**2,109**	**1,893**	**2,440**	**1,181**	**5,357**	**0**	**14,919**

[1] The valuation result of the business sectors includes the following net gains/losses from investments accounted for using the equity method: Mittelstandsbank (SME Bank) EUR 8.3 million, Export and project finance EUR 8.3 million and Promotion of developing countries and emerging economies EUR 4.3 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 “Volume of new commitments” relate to commitments for programme loans made by Mittelstandsbank (SME Bank) and Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and Private Client Bank/Credit Institutions) for which KfW IPEX-Bank acts as on-lending bank. The other amounts in this column result from minimal consolidation effects.

Net interest and commission income are allocated on the basis of the customers' 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 countries and emerging economies 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 platforms 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 2017

	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	1,330	420	646	–3	2,393
Net commission income	87	30	185	0	303
Segment income	**1,417**	**450**	**831**	**–3**	**2,695**

Segment reporting by region for the financial year 2016

	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	1,517	458	636	0	2,610
Net commission income	51	24	183	0	257
Segment income	**1,567**	**481**	**818**	**0**	**2,867**

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.

(40) Cash reserves

Analysis of Cash reserves by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Cash	0	0	0
Balances with central banks	11,087	11,572	–485
Total	**11,087**	**11,573**	**–485**

(41) Loans and advances to banks

Analysis of Loans and advances to banks by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Money-market transactions	10,390	11,771	–1,381
Loans and advances	256,280	251,833	4,447
Other receivables	7,626	12,318	–4,692
Total	**274,296**	**275,922**	**–1,626**

An adjustment to the carrying amount totalling EUR 1,185 million (31 Dec. 2016: EUR 1,357 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 with an impact on 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Direct loans to banks	72,111	79,099	–6,988
On-lent customer loans with full underwriting borne by the on-lending commercial bank	182,449	171,293	11,157
On-lent customer loans with partial underwriting borne by the on-lending commercial bank	2,191	2,340	–149
Direct and on-lent subordinated loans	714	459	255
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 with an impact on KfW’s earning position	–1,185	–1,357	172
Total	**256,280**	**251,833**	**4,447**

Direct loans to banks include in particular global loans granted as part of financing for domestic housing construction and SMEs.

Analysis of Loans and advances to customers by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Money-market transactions	5,156	9,592	–4,435
Loans and advances	122,156	126,038	–3,882
Other receivables	639	1,074	–436
Total	**127,951**	**136,704**	**–8,753**

An adjustment to the carrying amount totalling EUR 111 million (31 Dec. 2016: EUR 142 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 with an impact on KfW's earnings position.

Analysis of Loans and advances to customers by underwriting liability type

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Direct loans to customers	119,427	122,564	–3,136
On-lent customer loans without underwriting borne by the on-lending commercial bank	234	350	–117
Customer loans on-lent through insurance companies with full underwriting borne by the on-lending insurance company	621	469	152
Direct subordinated loans and subordinated loans on-lent through commercial banks and insurance companies	1,985	2,797	–812
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 with an impact on KfW's earnings position	–111	–142	31
Total	**122,156**	**126,038**	**–3,882**

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.

Analysis of Risk provisions for lending business by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Loans and advances to banks	177	171	6
Loans and advances to customers	1,280	1,439	–159
Provisions for losses on loans and advances	**1,457**	**1,610**	**–153**
Provisions for contingent liabilities and irrevocable loan commitments	61	44	17
Total	**1,517**	**1,654**	**–136**

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 2017 by risk assessment type

	Individually assessed risks EUR in millions	Risks assessed on a portfolio basis EUR in millions	Provisions for losses on loans and advances EUR in millions	Provisions (individual risks) EUR in millions	Provisions (portfolio risks) EUR in millions	Total EUR in millions
As of 1 Jan. 2017	**1,064**	**546**	**1,610**	**9**	**35**	**1,654**
Additions	497	68	565	2	14	581
Utilisation	–328	0	–328	0	0	–328
Reversals	–180	–82	–261	–3	–1	–266
Unwinding	–24	0	–24	0	0	–24
Exchange rate changes	–67	–25	–92	0	–1	–94
Changes in consolidated group	–6	–6	–12	0	6	–6
As of 31 Dec. 2017	**956**	**500**	**1,456**	**8**	**53**	**1,517**

Risks assessed on a portfolio basis comprise both credit rating risks and country risks.

As of 31 Dec. 2017, EUR 54 million (31 Dec. 2016: EUR 60 million) in interest income had not been collected for impaired loans.

	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. 2016	**1,197**	**546**	**1,743**	**19**	**42**	**1,804**
Additions	692	48	740	3	1	744
Utilisation	–512	0	–512	0	0	–512
Reversals	–301	–54	–356	–13	–9	–378
Unwinding	–32	0	–32	0	0	–32
Exchange rate changes	21	7	27	0	0	28
Changes in consolidated group	0	0	0	0	0	0
As of 31 Dec. 2016	**1,064**	**546**	**1,610**	**9**	**35**	**1,654**

(44) Value adjustments from macro fair value hedge accounting

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Value adjustments to assets under macro fair value hedge accounting	9,648	13,917	–4,269

The fair values attributable to hedged risks in the hedged portfolios in the *loans and receivables* category are included in this item.

(45) Derivatives designated for hedge accounting

Analysis of derivatives with positive fair values designated for hedge accounting by type of hedging relationship

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Micro fair value hedge accounting	8,820	26,471	–17,651
Macro fair value hedge accounting	254	993	–739
Total	**9,074**	**27,464**	**–18,390**

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Interest-related derivatives	3,688	8,181	–4,492
Currency-related derivatives	5,386	19,283	–13,897
Total	**9,074**	**27,464**	**–18,390**

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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Interest-related derivatives	4,461	5,515	–1,054
Currency-related derivatives	639	1,776	–1,137
Credit derivatives	0	1	–1
Miscellaneous	45	53	–8
Total	**5,145**	**7,344**	**–2,199**

Cross-currency swaps are presented under Currency-related derivatives.

Under Other derivatives are derivatives with positive fair values of EUR 92 million (31 Dec. 2016: EUR 123 million) attributable to embedded derivatives that are bifurcated.

(47) Securities and investments

Analysis of Securities and investments by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Bonds and other fixed-income securities	30,900	30,118	782
Shares and other non-fixed income securities	0	1	–1
Equity investments	2,672	2,595	77
Shares in non-consolidated subsidiaries	43	0	43
Total	**33,615**	**32,715**	**900**

Bonds and other fixed-income securities are recorded net of provisions for the risk of impairment losses that have already occurred but have not yet been individually identified.

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Investments accounted for using the equity method	415	346	68

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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Land and buildings	856	828	28
Plant and equipment	78	68	10
Other property, plant and equipment	17	35	–18
Total	**950**	**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 2017

	Acquisition/ production cost EUR in millions	Accumulated depreciation, impairment and reversal of impairment losses EUR in millions	Net carrying amount EUR in millions
Carrying amount as of 1 Jan. 2017	**1,278**	**–347**	**931**
Additions/reversals of impairment losses	66	0	66
Disposals	–6	5	–1
Depreciation	0	–46	–46
Impairment losses	0	0	0
Carrying amount as of 31 Dec. 2017	**1,339**	**–388**	**951**

	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. 2016	**1,232**	**–312**	**919**
Additions/reversals of impairment losses	64	0	64
Disposals	–17	17	–1
Depreciation	0	–42	–42
Impairment losses	0	–9	–9
Carrying amount as of 31 Dec. 2016	**1.278**	**–347**	**931**

(50) Intangible assets

Analysis of Intangible assets by class

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Software	206	158	49
Purchased software	*138*	*125*	*13*
Internally generated software	*68*	*33*	*36*
Other intangible assets	46	77	–32
Total	**252**	**235**	**17**

Other intangible assets include, in particular, software under development.

Development in Intangible assets in the financial year 2017

	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. 2017	**338**	**–103**	**235**
Changes in consolidated group	0	0	0
Additions/reversals of impairment losses	64	0	64
Disposals	–5	4	–2
Amortisation	0	–39	–39
Impairment losses	0	–7	–7
Carrying amount as of 31 Dec. 2017	**397**	**–145**	**252**

	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. 2016	**324**	**–117**	**206**
Changes in consolidated group	0	0	0
Additions/reversals of impairment losses	85	0	85
Disposals	–71	71	0
Amortisation	0	–29	–29
Impairment losses	0	–28	–28
Carrying amount as of 31 Dec. 2016	**338**	**–103**	**235**

(51) Income tax assets

Analysis of Income tax assets by type

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Current income tax assets	29	10	19
Deferred income tax assets	469	529	–61
Total	**498**	**540**	**–42**

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.

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Loans and advances to banks and customers (incl. risk provisions)	59	69	–10
Securities and investments	21	19	2
Intangible assets	15	15	0
Other derivatives (liabilities)	255	312	–57
Provisions	58	58	0
Other balance sheet items	0	1	–1
Tax loss carryforwards	61	55	6
Subtotal	**469**	**529**	**–61**
Offset against deferred tax liabilities	0	0	0
Total	**469**	**529**	**–61**

(52) Other assets

Analysis of Other assets by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Other assets and receivables	835	887	–52
Prepaid and deferred charges	37	45	–8
Total	**872**	**932**	**–60**

(53) Liabilities to banks

Analysis of Liabilities to banks by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Money-market transactions	19	7	11
Promissory note loans	1,864	2,157	–294
Other financial liabilities	4,120	17,672	–13,553
Total	**6,002**	**19,837**	**–13,835**

Liabilities from cash collateral received and the PROMISE and PROVIDE synthetic securitisation platforms are included in Other financial liabilities.

Analysis of Liabilities to customers by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Money-market transactions	293	2,638	–2,345
Promissory note loans	5,188	5,266	–78
Other financial liabilities	4,409	3,730	678
Total	**9,889**	**11,634**	**–1,745**

Liabilities from 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Money-market issues	40,185	47,091	–6,906
Bonds and notes	366,105	375,483	–9,379
Total	**406,290**	**422,574**	**–16,285**

(56) Value adjustments from macro fair value hedge accounting

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Value adjustments to liabilities under macro fair value hedge accounting	119	127	–8

The fair values attributable to hedged risks in the hedged portfolios in the *other liabilitie*s category are included in this item.

Analysis of derivatives with negative fair values designated for hedge accounting by type of hedging relationship

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Micro fair value hedge accounting	9,233	4,153	5,079
Macro fair value hedge accounting	5,255	14,297	–9,042
Total	**14,488**	**18,451**	**–3,963**

Analysis of derivatives with negative fair values designated for hedge accounting by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Interest-related derivatives	6,293	16,069	–9,777
Currency-related derivatives	8,195	2,381	5,814
Total	**14,488**	**18,451**	**–3,963**

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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Interest-related derivatives	974	1,211	–236
Currency-related derivatives	1,927	1,796	131
Total	**2,902**	**3,007**	**–105**

Cross-currency swaps are presented under Currency-related derivatives.

Under Other derivatives are derivatives with negative fair values of EUR 18 million (31 Dec. 2016: EUR 20 million) attributable to embedded derivatives that are bifurcated.

Analysis of Provisions by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Provisions for pensions and similar commitments	2,024	2,050	–27
Provisions for credit risks	61	44	17
Other provisions	793	771	22
Total	**2,877**	**2,865**	**12**

Development in Provisions for pensions and similar commitments in the financial year 2017

	Defined benefit obligations EUR in millions	Early retirement EUR in millions	Partial retirement EUR in millions	Total EUR in millions
As of 1 Jan. 2017	**2,002**	**34**	**14**	**2,050**
Additions	102	4	5	110
Current service cost	*68*	*4*	*5*	*77*
Past service cost	*0*	*0*	*0*	*0*
Interest cost	*33*	*0*	*0*	*33*
Other additions	*0*	*0*	*0*	*0*
Actuarial gains and losses	–82	0	0	–82
Changes in demographic assumptions	*–2*	*0*	*0*	*–2*
Changes in financial assumptions	*–100*	*0*	*0*	*–100*
Changes in experience adjustments	*20*	*0*	*0*	*20*
Utilisation	–46	–9	–5	–60
Reversals	0	0	0	0
Transfers	0	0	0	0
Contributions by members (recognised in equity)	5	0	0	5
Changes in consolidated group	0	0	0	0
As of 31 Dec. 2017	**1,981**	**29**	**14**	**2,024**

The average residual term of the defined benefit pension obligations is 19.3 years as of 31 Dec. 2017 (31 Dec. 2016: 20.0 years).

	Defined benefit obligations	Early retirement	Partial retirement	Total
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2016	**1,726**	**41**	**13**	**1,780**
Additions	95	0	5	100
Current service cost	*55*	*0*	*5*	*60*
Past service cost	*0*	*0*	*0*	*0*
Interest cost	*40*	*0*	*0*	*40*
Other additions	*0*	*0*	*0*	*0*
Actuarial gains and losses	221	0	0	221
Changes in demographic assumptions	*0*	*0*	*0*	*0*
Changes in financial assumptions	*236*	*0*	*0*	*236*
Changes in experience adjustments	*–14*	*0*	*0*	*–14*
Utilisation	–45	–7	–4	–57
Reversals	0	0	0	0
Transfers	0	0	0	0
Contributions by members (recognised in equity)	6	0	0	6
Changes in consolidated group	0	0	0	0
As of 31 Dec. 2016	**2,002**	**34**	**14**	**2,050**

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. 2017	31 Dec. 2016
Technical discount rate	1.88	1.63
Rate of salary increases	2.20	2.20
Rate of pension increases	2.50	2.50
Rate of staff turnover	1.50	1.50

	Difference	Change in defined benefit obligations	Difference	Change in defined benefit obligations
		EUR in millions		EUR in millions
Life expectancy	+1 year	83	–1 year	–84
Technical discount rate	+0.25%	–93	–0.25%	100
Rate of salary increases	+0.50%	17	–0.50%	–16
Rate of pension increases	+0.50%	129	–0.50%	–117
Rate of staff turnover	+1.00%	–4	–1.00%	5

Sensitivity of defined benefit pension obligations as of 31 December 2016

	Difference	Change in defined benefit obligations	Difference	Change in defined benefit obligations
		EUR in millions		EUR in millions
Life expectancy	+1 year	75	–1 year	–74
Technical discount rate	+0.25%	–83	–0.25%	90
Rate of salary increases	+0.50%	18	–0.50%	–17
Rate of pension increases	+0.50%	82	–0.50%	–75
Rate of staff turnover	+1.00%	–17	–1.00%	21

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 2017

	Obligations to employees EUR in millions	Other provisions EUR in millions	Total EUR in millions
As of 1 Jan. 2017	**33**	**739**	**771**
Additions	5	80	86
Interest cost	*0*	*3*	*3*
Other additions	*5*	*77*	*83*
Utilisation	–4	–48	–53
Reversals	–1	–11	–11
Transfers	0	0	0
Exchange rate changes	0	0	0
Changes in consolidated group	0	0	0
As of 31 Dec. 2017	**33**	**760**	**793**

Obligations to employees show 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 40 million (31 Dec. 2016: EUR 44 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 with an impact on 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 comprise 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”,* an 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.

	Obligations to employees EUR in millions	Other provisions EUR in millions	Total EUR in millions
As of 1 Jan. 2016	**28**	**728**	**756**
Additions	7	63	69
Interest cost	*0*	*10*	*10*
Other additions	*7*	*52*	*59*
Utilisation	–2	–48	–51
Reversals	0	–3	–4
Transfers	0	0	0
Exchange rate changes	0	0	0
Changes in consolidated group	0	0	0
As of 31 Dec. 2016	**33**	**739**	**771**

(60) Income tax liabilities

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Current income tax liabilities	16	11	5
Deferred income tax liabilities	257	314	–57
Total	**272**	**324**	**–52**

Current income tax liabilities as of 31 Dec. 2017 primarily include tax provisions at the level of taxable companies included in KfW Group.

Development in tax provisions

	2017 EUR in millions	2016 EUR in millions
As of 1 Jan.	**11**	**29**
Additions	25	15
Utilisation	–20	–34
Reversals	0	0
As of 31 Dec.	**16**	**11**

Deferred income tax liabilities mostly resulted from valuation differences relating to the balance sheet items listed below.

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Other derivatives (assets)	254	308	–54
Securities and investments	0	0	0
Other balance sheet items	3	5	–2
Subtotal	**257**	**314**	**–57**
Offset against deferred tax assets	0	0	0
Total	**257**	**314**	**–57**

(61) Other liabilities

Analysis of Other liabilities by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Other financial liabilities	608	723	–115
Deferred income	157	215	–58
Total	**765**	**938**	**–173**

(62) Subordinated liabilities

Analysis of Subordinated liabilities by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Subordinated liabilities	0	200	–200

As part of the new legislation governing ERP economic promotion as of 1 July 2007, the ERP Special Fund had provided a subordinated loan to KfW in the original amount of EUR 3,247 million. KfW repaid the subordinated loan, which was still reported in the amount of EUR 200 million as of 31 Dec. 2016, to the ERP Special Fund early on 29 September 2017. The loan consisted of three tranches with different fixed-interest periods. Interest was charged on the tranches at an average rate of 1.82% in financial year 2017 (previous year: 1.82%).

Analysis of Equity

	31 Dec. 2017 EUR in millions	31 Dec. 2016 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	8,447	8,447	0
of which promotional reserve from the ERP Special Fund	*7,150*	*7,150*	*0*
Reserve from the ERP Special Fund	1,191	1,191	0
Retained earnings	15,500	14,092	1,407
Statutory reserve under Article 10 (2) KfW Law	*1,875*	*1,875*	*0*
Special reserve under Article 10 (3) KfW Law	*9,207*	*8,312*	*895*
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	*4,396*	*3,884*	*512*
Fund for general banking risks	600	600	0
Revaluation reserves	–295	–576	281
Valuation gains/losses from available-for-sale financial assets (after tax)	*277*	*75*	*202*
Actuarial gains and losses from defined benefit pension obligations (after tax)	*–572*	*–650*	*79*
Total	**28,742**	**27,055**	**1,688**

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 the risk report in the group management report.

and similar income and expense reported in Net interest and commission income and loan processing fees included in Net commission income, contributions to Comprehensive 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 2017

	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	6,419	–209	106	–3,412	0	4	0	2,910
Held-to-maturity investments	–3	0	0	0	0	0	0	–3
Other liabilities	–6,727	0	0	2,241	0	0	5	–4,481
Available-for-sale financial assets	185	0	0	–169	0	–4	0	11
Financial assets at fair value through profit or loss	39	0	3	0	–54	0	0	–12
Financial liabilities at fair value through profit or loss	–587	0	–3	0	137	0	0	–453
Financial instruments classified as held for trading	1,811	0	0	0	–459	0	0	1,352
Derivatives designated for hedge accounting	1,290	0	0	1,931	0	0	0	3,222
Total	**2,427**	**–209**	**106**	**591**	**–377**	**0**	**5**	**2,545**

	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	7,386	–150	125	28	0	2	0	7,391
Held-to-maturity investments	–2	0	0	0	0	0	0	–2
Other financial liabilities	–7,112	0	–27	2,287	0	0	101	–4,751
Available-for-sale financial assets	253	0	0	–79	0	–12	0	163
Financial assets at fair value through profit or loss	44	0	8	0	76	0	0	128
Financial liabilities at fair value through profit or loss	–644	0	–8	0	107	0	0	–545
Financial instruments classified as held for trading	1,567	0	–1	0	–128	0	0	1,439
Derivatives designated for hedge accounting	1,158	0	0	–1,943	0	0	0	–785
Total	**2,650**	**–150**	**97**	**294**	**55**	**–10**	**101**	**3,038**

The following tables show the assets and liabilities from financial instruments included in the different balance sheet items presented by measurement category.

Financial assets by measurement category as of 31 December 2017

	Loans and advances to banks	Loans and advances to customers	Risk provisions for lending business	Value adjustments from macro fair value hedge accounting	Derivatives designated 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	274,291	127,951	–1,457	9,648	0	0	6,242	416,675	90.9
Held-to-maturity investments	0	0	0	0	0	0	2,587	2,587	0.6
Available-for-sale financial assets	0	0	0	0	0	0	22,909	22,909	5.0
Financial assets at fair value through profit or loss	5	0	0	0	0	0	1,876	1,882	0.4
Financial assets classified as held for trading	0	0	0	0	0	5,145	0	5,145	1.1
Derivatives designated for hedge accounting	0	0	0	0	9,074	0	0	9,074	2.0
Total	**274,296**	**127,951**	**–1,457**	**9,648**	**9,074**	**5,145**	**33,615**	**458,273**	**100.0**

	Liabilities to banks	Liabilities to customers	Certificated liabilities	Value adjustments from macro fair value hedge accounting	Derivatives designated 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	5,748	8,055	394,599	119	0	0	0	0	408,521	92.9
Financial liabilities at fair value through profit or loss	255	1,835	11,691	0	0	0	0	0	13,780	3.1
Financial liabilities classified as held for trading	0	0	0	0	0	2,902	0	0	2,902	0.7
Derivatives designated for hedge accounting	0	0	0	0	14,488	0	0	0	14,488	3.3
Total	**6,002**	**9,889**	**406,290**	**119**	**14,488**	**2,902**	**0**	**0**	**439,690**	**100.0**

	advances to banks	to customers	ing business	from macro fair value hedge accounting	nated for hedge accounting		ments		
	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	275,916	136,704	–1,610	13,917	0	0	6,435	431,362	87.6
Held-to-maturity investments	0	0	0	0	0	0	3,029	3,029	0.6
Available-for-sale financial assets	0	0	0	0	0	0	21,267	21,267	4.3
Financial assets at fair value through profit or loss	6	0	0	0	0	0	1,983	1,990	0.4
Financial assets classified as held for trading	0	0	0	0	0	7,344	0	7,344	1.5
Derivatives designated for hedge accounting	0	0	0	0	27,464	0	0	27,464	5.6
Total	**275,922**	**136,704**	**–1,610**	**13,917**	**27,464**	**7,344**	**32,715**	**492,456**	**100.0**

				hedge account-ing	ing					
	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	19,541	9,807	408,173	127	0	0	4	200	437,852	92.0
Financial liabilities at fair value through profit or loss	297	1,828	14,401	0	0	0	0	0	16,525	3.5
Financial liabilities classified as held for trading	0	0	0	0	0	3,007	0	0	3,007	0.6
Derivatives designated for hedge accounting	0	0	0	0	18,451	0	0	0	18,451	3.9
Total	**19,837**	**11,634**	**422,574**	**127**	**18,451**	**3,007**	**4**	**200**	**475,834**	**100.0**

In 2008 and with retrospective 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions
Carrying amount (statement of financial position)	144	204
Fair value	147	205

For the reclassified financial assets, a change of EUR –9 million (2016: EUR 2 million) in fair value would have been recorded directly in equity under Revaluation reserves and – as in the previous year – no Net gains/losses from securities and investments would have been recorded.

As in financial year 2016, Net gains/losses from securities and investments do not include any reversals of impairment losses or impairments on reclassified financial assets; as in the previous year, 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions
Carrying amount (statement of financial position)	375	870
Fair value	377	874

fair value would have been recorded directly in equity under Revaluation reserves and – as in the previous year – no Net gains/losses from securities and investments would have been recorded.

Once again, Net gains/losses from securities and investments include reversals of impairment losses and impairments on reclassified financial assets totalling EUR 1 million; as in the financial year 2016, no realised gains and losses were recorded. 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 (prior-year) 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 2017

	Fair value	Carrying amount (statement of financial position)	Diiference
	EUR in millions	EUR in millions	EUR in millions
Loans and advances to banks	284,750	274,119	10,631
Loans and advances to customers	128,759	126,671	2,088
Value adjustments from macro fair value hedge accounting	0	9,648	–9,648
Derivatives designated for hedge accounting	9,074	9,074	0
Other derivatives	5,145	5,145	0
Securities and investments	33,682	33,615	67
Assets	**461,411**	**458,273**	**3,138**
Liabilities to banks	6,122	6,002	120
Liabilities to customers	10,058	9,889	169
Certificated liabilities	409,187	406,290	2,897
Value adjustments from macro fair value hedge accounting	0	119	–119
Derivatives designated for hedge accounting	14,488	14,488	0
Other derivatives	2,902	2,902	0
Subordinated liabilities	0	0	0
Liabilities	**442,757**	**439,690**	**3,067**

instruments. Accordingly, when the comparison is made with the carrying amount, it is necessary to take into account the changes in value (interest-related) resulting from the recognition of Loans and advances and borrowings in macro fair value hedge accounting.

All equity instruments are measured at fair value as of the balance sheet date. As of 31 Dec. 2016, equity instruments in the amount of EUR 825 million were measured at cost less impairment losses as their fair value could not be reliably determined.

Fair values of financial instruments as of 31 December 2016

	Fair value	Carrying amount (statement of financial position)	Difference
	EUR in millions	EUR in millions	EUR in millions
Loans and advances to banks	290,070	275,752	14,318
Loans and advances to customers	138,198	135,265	2,933
Value adjustments from macro fair value hedge accounting	0	13,917	–13,917
Derivatives designated for hedge accounting	27,464	27,464	0
Other derivatives	7,344	7,344	0
Securities and investments	32,770	32,715	56
Assets	**495,846**	**492,456**	**3,390**
Liabilities to banks	19,998	19,837	161
Liabilities to customers	11,839	11,634	205
Certificated liabilities	426,854	422,574	4,280
Value adjustments from macro fair value hedge accounting	0	127	–127
Derivatives designated for hedge accounting	18,451	18,451	0
Other derivatives	3,007	3,007	0
Subordinated liabilities	208	204	4
Liabilities	**480,356**	**475,834**	**4,522**

(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 to 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, as well as the majority of borrowings accounted for under the *fair value option,* for which prices from an active market are available.

fair value option for which no prices from an active market are available is largely performed using valuation models with inputs that are observable in 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 data not observable in a market” level largely comprises derivatives recognised in Other derivatives with positive or negative fair values, which comprise a hedging instrument for customers with respect to export and project financing business, as well as available-for-sale 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. This level also comprises, to a small extent, borrowings accounted for under the fair value option, whose fair value is based in part on data not observable in a market.

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 predominantly allocated to “Valuation method based in part on data not observable in a market”. The measurement of fair value using the discounted cash flow method is based to a significant extent on data not observable in a market (expected loss, etc.).

The majority of the bonds and notes reported under Certificated liabilities are allocated to the “Quoted market price” level or – if there is no active market – the “Valuation method based on observable market data (model)” level. These include in particular KfW’s large volume and highly liquid benchmark bonds denominated in euros and US dollars as well as other public bonds.

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 that caused the change of valuation method used.

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on data not observable in a market	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	5	0	5
Loans and advances to customers – classified as held for trading	0	0	0	0
Derivatives designated for hedge accounting	0	9,074	0	9,074
Other derivatives	0	4,472	673	5,145
Securities and investments – available for sale	21,869	689	351	22,909
Securities and investments – recorded at fair value through profit or loss	92	1,447	338	1,876
Subtotal of financial assets measured at fair value	**21,960**	**15,688**	**1,362**	**39,010**
Fair values of financial assets carried at amortised cost				
Loans and advances to banks – loans and receivables	0	17,629	267,116	284,745
Loans and advances to customers – loans and receivables	0	5,156	123,602	128,759
Securities and investments – loans and receivables	651	5,636	7	6,293
Securities and investments – held-to-maturity investments	2,069	535	0	2,603
Subtotal of fair values of financial assets carried at amortised cost	**2,719**	**28,956**	**390,725**	**422,401**
Total	**24,680**	**44,644**	**392,087**	**461,411**

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on data not observable in a market	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	255	0	255
Liabilities to customers – recorded at fair value through profit or loss	0	1,820	15	1,835
Certificated liabilities – recorded at fair value through profit or loss	8,139	3,392	160	11,691
Derivatives designated for hedge accounting	0	14,488	0	14,488
Other derivatives	0	2,816	86	2,902
Subtotal of financial liabilities measured at fair value	**8,139**	**22,770**	**261**	**31,170**
Fair values of financial liabilities carried at amortised cost				
Liabilities to banks – other liabilities	0	5,867	0	5,867
Liabilities to customers – other liabilities	0	8,206	18	8,224
Certificated liabilities – other liabilities	346,519	50,978	0	397,496
Subordinated liabilities – other liabilities	0	0	0	0
Subtotal of fair values of financial liabilities carried at amortised cost	**346,519**	**65,051**	**18**	**411,588**
Total	**354,658**	**87,821**	**278**	**442,757**

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part data not observed in a market	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	6	0	6
Loans and advances to customers – classified as held for trading	0	0	0	0
Derivatives designated for hedge accounting	0	27,464	0	27,464
Other derivatives	0	6,480	864	7,344
Securities and investments – available for sale	19,995	446	825	21,267
Securities and investments – recorded at fair value through profit or loss	201	1,350	432	1,983
Subtotal of financial assets measured at fair value	**20,196**	**35,746**	**2,123**	**58,064**
Fair values of financial assets carried at amortised cost				
Loans and advances to banks – loans and receivables	0	23,662	266,402	290,064
Loans and advances to customers – loans and receivables	0	9,891	128,307	138,198
Securities and investments – loans and receivables	980	5,406	92	6,477
Securities and investments – held-to-maturity investments	2,304	739	0	3,043
Subtotal of fair values of financial assets carried at amortised cost	**3,284**	**39,697**	**394,801**	**437,782**
Total	**23,480**	**75,443**	**396,923**	**495,846**

	Quoted market price	Valuation method based on observable market data (model)	Valuation method based in part on data not observable in a market	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	296	0	297
Liabilities to customers – recorded at fair value through profit or loss	0	1,796	32	1,828
Certificated liabilities – recorded at fair value through profit or loss	9,994	4,292	114	14,401
Derivatives designated for hedge accounting	0	18,448	3	18,451
Other derivatives	0	2,917	90	3,007
Subtotal of financial liabilities measured at fair value	**9,994**	**27,748**	**240**	**37,982**
Fair values of financial liabilities carried at amortised cost				
Liabilities to banks – other liabilities	0	19,017	684	19,701
Liabilities to customers – other liabilities	0	7,124	2,888	10,011
Certificated liabilities – other liabilities	349,869	62,580	5	412,453
Subordinated liabilities – other liabilities	0	208	0	208
Subtotal of fair values of financial liabilities carried at amortised cost	**349,869**	**88,928**	**3,576**	**442,374**
Total	**359,863**	**116,677**	**3,816**	**480,356**

and “Valuation method based on observable market data (model)” levels in the financial year 2017

	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	0	222
Securities and investments – recorded at fair value through profit or loss	20	0

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 2017

	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	346

and "Valuation method based on observable market data (model)" levels in the financial year 2016

	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	70	1,002
Securities and investments – recorded at fair value through profit or loss	62	133

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 2016

	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	9,913

	Loans and advances to banks – recorded at fair value through profit or loss	Loans and advances to banks – classified as held for trading	Loans and advances to customers – recorded at fair value through profit or loss	Loans and advances to customers – classified as held for trading
	EUR in millions	**EUR in millions**	**EUR in millions**	**EUR in millions**
As of 1 Jan. 2017	**0**	**0**	**0**	**0**
A. Changes recognised in the income statement				
Net interest and commission income	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Net gains/losses from hedge accounting	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Net gains/losses from other financial instruments measured at fair value	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Net gains/losses from securities and investments	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Change in revaluation reserves	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Total changes recognised in the income statement	**0**	**0**	**0**	**0**
B. Changes recognised directly in equity				
Change of valuation method used	0	0	0	0
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0
Additions	0	0	0	0
Disposals	0	0	0	0
Total changes recognised directly in equity	**0**	**0**	**0**	**0**
Changes in consolidated group	0	0	0	0
Exchange rate changes	0	0	0	0
Other changes	0	0	0	0
As of 31 Dec. 2017	**0**	**0**	**0**	**0**

Derivatives designated 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
0	**864**	**825**	**432**	**2,123**
0	–2	0	0	–2
0	*–1*	*0*	*0*	*–1*
0	0	0	0	0
0	*0*	*0*	*0*	*0*
0	–129	0	2	–127
0	*–126*	*0*	*3*	*–123*
0	0	–6	0	–6
0	*0*	*–13*	*0*	*–13*
0	0	165	0	165
0	*0*	*165*	*0*	*165*
0	**–131**	**158**	**2**	**29**
0	0	–596	–71	–667
0	1	0	0	1
0	0	–596	–71	–668
0	1	151	4	156
0	–51	–101	–1	–153
0	**–50**	**–546**	**–68**	**–665**
0	0	–28	–29	–56
0	–8	–59	0	–67
0	–1	0	0	–1
0	**673**	**350**	**338**	**1,362**

	Liabilities to banks – recorded at fair value through profit or loss	Liabilities to customers – recorded at fair value through profit or loss
	EUR in millions	EUR in millions
As of 1 Jan. 2017	**0**	**32**
A. Changes recognised in the income statement		
Net interest and commission income	0	0
Contracts still valid at year-end	*0*	*0*
Net gains/losses from hedge accounting	0	0
Contracts still valid at year-end	*0*	*0*
Net gains/losses from other financial instruments measured at fair value	0	0
Contracts still valid at year-end	*0*	*0*
Total changes recognised in the income statement	**0**	**0**
B. Changes recognised directly in equity		
Change of valuation method used	0	0
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0
Additions	0	0
Disposals	0	–17
Total changes recognised directly in equity	**0**	**–17**
Changes in consolidated group	0	0
Exchange rate changes	0	0
Other changes	0	0
As of 31 Dec. 2017	**0**	**15**

Certificated liabilities – recorded at fair value through profit or loss	Derivatives designated for hedge accounting	Other derivatives	Total
EUR in millions	EUR in millions	EUR in millions	EUR in millions
114	**3**	**90**	**240**
0	0	0	0
0	*0*	*0*	*0*
0	0	0	0
0	*0*	*0*	*0*
4	0	5	9
4	*0*	*5*	*9*
4	**0**	**5**	**9**
49	0	0	49
70	0	1	71
–22	0	–1	–23
0	0	0	0
0	–2	–12	–31
49	**–2**	**–12**	**17**
0	0	0	0
–7	–1	4	–4
0	0	–1	–1
160	**0**	**86**	**261**

Development of financial assets measured at fair value in the financial year 2016, using valuation methods based in part

	Loans and advances to banks – recorded at fair value through profit or loss	Loans and advances to banks – classified as held for trading	Loans and advances to customers – recorded at fair value through profit or loss	Loans and advances to customers – classified as held for trading
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
As of 1 Jan. 2016	**4**	**0**	**0**	**29**
A. Changes recognised in the income statement				
Net interest and commission income	–2	0	0	0
Contracts still valid at year-end	*–2*	*0*	*0*	*0*
Net gains/losses from hedge accounting	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Net gains/losses from other financial instruments measured at fair value	–2	0	0	0
Contracts still valid at year-end	*–2*	*0*	*0*	*0*
Net gains/losses from securities and investments	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Change in revaluation reserves	0	0	0	0
Contracts still valid at year-end	*0*	*0*	*0*	*0*
Total changes recognised in the income statement	**–4**	**0**	**0**	**0**
B. Changes recognised directly in equity				
Change of valuation method used	0	0	0	0
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0	0	0
Additions	0	0	0	0
Disposals	0	0	0	–28
Total changes recognised directly in equity	**0**	**0**	**0**	**–28**
Changes in consolidated group	0	0	0	0
Exchange rate changes	0	0	0	0
Other changes	0	0	0	0
As of 31 Dec. 2016	**0**	**0**	**0**	**0**

Derivatives designated 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
0	**782**	**796**	**475**	**2,086**
0	–4	0	0	–6
0	*–3*	*0*	*0*	*–5*
0	0	0	0	0
0	*0*	*0*	*0*	*0*
0	122	0	–20	100
0	*134*	*0*	*–20*	*112*
0	0	–20	0	–20
0	*0*	*–140*	*0*	*–140*
0	0	0	0	0
0	*0*	*0*	*0*	*0*
0	**118**	**–20**	**–20**	**75**
0	3	0	–72	–68
0	3	0	28	31
0	0	0	–100	–100
0	0	157	33	190
0	–30	–109	–1	–169
0	**–27**	**47**	**–40**	**–48**
0	0	–9	0	–9
0	–35	15	18	–2
0	26	–5	0	21
0	**864**	**825**	**432**	**2,123**

	Liabilities to banks – recorded at fair value through profit or loss	Liabilities to customers – recorded at fair value through profit or loss
	EUR in millions	EUR in millions
As of 1 Jan. 2016	**4**	**58**
A. Changes recognised in the income statement		
Net interest and commission income	–4	0
Contracts still valid at year-end	*–4*	*0*
Net gains/losses from hedge accounting	0	0
Contracts still valid at year-end	*0*	*0*
Net gains/losses from other financial instruments measured at fair value	1	–2
Contracts still valid at year-end	*1*	*–2*
Total changes recognised in the income statement	**–4**	**–2**
B. Changes recognised directly in equity		
Change of valuation method used	0	0
Transfers from “Quoted market price” and “Valuation method based on observable market data (model)”	0	0
Transfers to “Quoted market price” and “Valuation method based on observable market data (model)”	0	0
Additions	0	0
Disposals	0	–25
Total changes recognised directly in equity	**0**	**–25**
Changes in consolidated group	0	0
Exchange rate changes	0	0
Other changes	0	0
As of 31 Dec. 2016	**0**	**32**

Certificated liabilities – recorded at fair value through profit or loss	Derivatives designated for hedge accounting	Other derivatives	Total
EUR in millions	EUR in millions	EUR in millions	EUR in millions
5	**2**	**15**	**84**
0	0	0	–4
0	*0*	*0*	*–4*
0	0	0	0
0	*0*	*0*	*0*
0	0	22	20
0	*0*	*22*	*20*
0	0	22	**17**
109	0	23	132
109	0	24	133
0	0	–1	–1
0	0	0	0
0	0	–8	–32
109	**0**	**16**	**100**
0	0	0	0
1	1	12	13
0	0	26	26
114	**3**	**90**	**240**

The following tables show how an alternative determination of relevant unobservable valuation parameters, *i.e.* values in best and worst case scenarios, would have an impact on fair values for significant products allocated to this level.

Major products	Valuation method used	Relevant data not observable in a market	Range
Derivatives with positive or negative fair values, which are used as a hedging instrument for customers with respect to export and project finance	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	0.5% to 1.5% (real fluctuation)
		Long-term result	5% (relative fluctuation)

Sensitivity analysis for the financial assets measured at fair value, using valuation methods based in part on data not observable in a market, as of 31 December 2017

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Other derivatives – with positive fair values	682	673	664
Securities and investments – recorded at fair value through profit or loss	399	338	290
Total	**1,082**	**1,011**	**954**

Sensitivity analysis for the financial liabilities measured at fair value, using valuation methods based in part on data not observable in a market, as of 31 December 2017

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Certificated liabilities – recorded at fair value through profit or loss	158	160	162
Other derivatives – with negative fair values	85	86	87
Total	**242**	**246**	**248**

observable in a market, as of 31 December 2016

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Other derivatives – with positive fair values	875	864	854
Securities and investments – recorded at fair value through profit or loss	512	432	373
Total	**1,387**	**1,297**	**1,226**

Sensitivity analysis for the financial liabilities measured at fair value, using valuation methods based in part on data not observable in a market, as of 31 December 2016

	Best case scenario	Reported value	Worst case scenario
	EUR in millions	EUR in millions	EUR in millions
Certificated liabilities – recorded at fair value through profit or loss	113	114	115
Other derivatives – with negative fair values	89	90	91
Total	**202**	**204**	**207**

(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. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Carrying amount	237	276	–39
Repayment at maturity	245	303	–58
Difference	**8**	**27**	**–19**

Of the difference between the repayment amount at maturity and the carrying amount, there is no amount attributable to borrowings for which the repayment amount builds up as a result of the capitalisation over time of interest due (31 Dec. 2016: EUR 21 million).

Disclosures on Liabilities to customers designated at fair value through profit or loss

(fair value option)

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Carrying amount	1,835	1,828	7
Repayment at maturity	3,159	3,113	47
Difference	**1,325**	**1,285**	**40**

Of the difference between the repayment amount at maturity and the carrying amount, EUR 1,312 million (31 Dec. 2016: EUR 1,244 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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Carrying amount	11,691	14,401	–2,710
Repayment at maturity	13,887	17,101	–3,213
Difference	**2,197**	**2,700**	**–503**

Of the difference between the repayment amount at maturity and the carrying amount, EUR 3,727 million (31 Dec. 2016: EUR 4,578 million) is attributable to borrowings for which the repayment amount builds up as a result of the capitalisation over time of interest due.

(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 measured at fair value amount to EUR –103 million (2016: EUR 264 million). The cumulative effect amounts to EUR –178 million (31 Dec. 2016: EUR –74 million).

These valuation effects included 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. 2017		Fair value 31 Dec. 2016	
	31 Dec. 2017	31 Dec. 2016	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	423,508	412,338	8,149	7,263	13,692	17,277
Currency-related derivatives	201,670	224,014	5,978	10,108	20,993	4,161
Credit derivatives	9	10	0	0	1	0
Total	**625,187**	**636,363**	**14,127**	**17,371**	**34,685**	**21,438**

Cross-currency swaps are presented under Currency-related derivatives.

Analysis of derivatives by counterparty

	Par value		Fair value 31 Dec. 2017		Fair value 31 Dec. 2016	
	31 Dec. 2017	31 Dec. 2016	positive	negative	positive	negative
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
OECD banks	612,782	624,675	13,474	17,050	33,819	21,098
Non-OECD banks	741	824	0	48	21	2
Other counterparties	8,798	8,152	597	64	782	62
Public sector	2,865	2,712	55	210	64	275
Total	**625,187**	**636,363**	**14,127**	**17,371**	**34,685**	**21,438**

The volume of initial differences between the transaction price and the model value as of the recognition date arising from the use of a valuation technique that makes significant use of data not observable in a market which have yet to be amortised over the life of the financial instrument amounts to EUR 91 million (31 Dec. 2016: EUR 93 million). The net gains/losses from derivatives not qualifying for hedge accounting include amortisation effects in the amount of EUR 10 million (2016: EUR 9 million).

The economic hedge effect of financial derivatives with an aggregate principal amount of EUR 567.8 billion (31 Dec. 2016: EUR 578.8 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, unchanged from 31 Dec. 2016.

However, liquid collateral totalling EUR 6,227 million (31 Dec. 2016: EUR 2,409 million) was provided, which is recognised in Loans and advances to banks and customers.

Unchanged from 31 Dec. 2016, KfW Group did not receive any collateral (in the form of securities) under derivative transactions, which can be resold or repledged at any time without payments by the protection seller being past due.

However, provision of liquid collateral totalling EUR 3,358 million (31 Dec. 2016: EUR 16,976 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, unchanged from 31 Dec. 2016.

Nor was any provision of liquid collateral accepted, unchanged from 31 Dec. 2016.

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Carrying amount of securities sold under repo transactions that continue to be recognised in Securities and investments	11	0	11
Liabilities to banks (countervalue)	11	0	11

The fair value of securities sold under repo transactions that continue to be recognised in Securities and investments totals EUR 11 million (31 Dec. 2016: EUR 0 million). The fair value of the corresponding repayment obligations is EUR 11 million (31 Dec. 2016: EUR 0 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, unchanged from 31 Dec. 2016.

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 by the protection seller being past due, unchanged from 31 Dec. 2016.

The group neither pledged nor accepted any liquid collateral, unchanged from 31 Dec. 2016.

Disclosures on reverse repo transactions

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Loans and advances to banks (countervalue)	972	9,522	–8,551
Loans and advances to customers (countervalue)	0	300	–300
Total	**972**	**9,822**	**–8,851**

Securities purchased under reverse repos are not recognised.

KfW Group did not pledge 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, unchanged from 31 Dec. 2016.

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 by the protection seller being past due, unchanged from 31 Dec. 2016.

The group neither pledged nor accepted any liquid collateral, unchanged from 31 Dec. 2016.

first time in 2017. This form of settling derivative transactions, which is new for KfW, results in the recognition of a net amount in the balance sheet for the transactions affected, as the involvement of EUREX as the central counterparty (CCP) meets all of the requirements for offsetting as set forth in the relevant IFRS standard (IAS 32.42). Accordingly, positive and negative fair values of derivatives for which EUREX acts as the central counterparty are offset against the corresponding collateral and reported in a net item in the balance sheet.

For securities repo transactions (reverse repos and repos) for which EUREX acts as the central counterparty, offsetting is also performed for receivables and liabilities.

In addition, framework agreements featuring netting agreements are in place between KfW and its business partners for OTC derivatives and securities 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 bilateral OTC derivatives (not in central clearing) all include close-out netting agreements with the business 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 therefore are not applicable to this type of 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's repo transactions.

	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	16,134	2,632	13,502	10,114	3,174	214
Reverse repos	972	0	972	11	961	0
Total	**17,106**	**2,632**	**14,474**	**10,125**	**4,135**	**214**

Disclosures on financial liabilities with netting agreements as of 31 December 2017

	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	22,961	5,866	17,095	10,114	6,211	770
Repos	11	0	11	11	0	0
Total	**22,972**	**5,866**	**17,106**	**10,125**	**6,211**	**770**

In addition to the net amount, the items Derivatives designated 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.

	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-offset-table 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	33,876	0	33,876	18,176	15,488	212
Reverse repos	9,822	0	9,822	0	9,822	0
Total	**43,699**	**0**	**43,699**	**18,176**	**25,311**	**212**

Disclosures on financial liabilities with netting agreements as of 31 December 2016

	Carrying amount of financial lia-bilities before offsetting (gross amount)	Netted figure as carrying amount of financial assets (gross amount)	Reported financial liabilities (net amount)	Carrying amount of non-offset-table 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	21,097	0	21,097	18,176	2,400	521
Repos	0	0	0	0	0	0
Total	**21,097**	**0**	**21,097**	**18,176**	**2,400**	**521**

Analysis of contingent liabilities by class

	31 Dec. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Contingent liabilities from financial guarantees	2,229	2,647	–418
Contingent liabilities from PROMISE/PROVIDE securitisation platforms	0	0	0
Performance guarantees	2	2	–1
Other contingent liabilities	1,420	1,305	115
Total	**3,651**	**3,955**	**–304**

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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Irrevocable loan commitments	80,082	81,534	–1,452

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. 2017 EUR in millions	31 Dec. 2016 EUR in millions	Change EUR in millions
Loans and advances to banks	931	951	–20
Loans and advances to customers	11,502	12,123	–621
Securities and investments	3,737	3,600	137
Assets held in trust	**16,170**	**16,674**	**–503**
Liabilities to banks	0	0	0
Liabilities to customers	16,170	16,673	–503
Liabilities held in trust	**16,170**	**16,674**	**–503**

EUR 11,597 million (31 Dec. 2016: EUR 12,114 million) of the assets held in trust are attributable to the business sector Promotion of developing countries and emerging economies.

	31 Dec. 2017	31 Dec. 2016	Change
	EUR in millions	EUR in millions	EUR in millions
Administered loans	15,524	14,694	829

(79) Leasing transactions as lessee

Disclosures on lessee agreements as of 31 December 2017

	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	13	52	41	106

Disclosures on lessee agreements as of 31 December 2016

	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	13	38	24	75

(80) Average number of employees during the financial year

	2017	2016	Change
Employees (female)	2,961	2,892	69
Employees (male)	3,152	3,053	99
Total	**6,113**	**5,944**	**169**
Staff not covered by collective agreements	*4,281*	*4,170*	*111*
Staff covered by collective agreements	*1,832*	*1,774*	*58*

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.

Overview of total remuneration of members of the Executive Board and Board of Supervisory Directors

	2017 EUR in thousands	2016 EUR in thousands	Change EUR in thousands
Members of the Executive Board	4,034.1	4,033.0	1,1
Former members of the Executive Board and their surviving dependants	4,236.2	4,225.9	10,3
Members of the Board of Supervisory Directors	191.8	193.0	–1,2
Total	**8,462.1**	**8,451.9**	**10,2**

Remuneration of the Executive Board

The remuneration 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. Each contract is individualised accordingly on this basis.

Components of remuneration

The Executive Board members receive fixed monetary remuneration paid in equal monthly instalments. The remuneration of the Chief Executive Officer serving in 2017 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. The minimum bonus payment for financial year 2017 was set at EUR 181,947. 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 agreement on objectives for financial year 2017 comprises promotional, economic and regulatory objectives with a weighting of 50% quantitative to 50% qualitative objectives. A cap on the end-of-year bonus has been agreed.

The following table shows total remuneration, broken down into fixed and, where applicable, variable components and other forms of remuneration, as well as additions to pension provisions for the individual members of the Executive Board.

			remuneration		remuneration				provisions[2)]	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands	EUR in thou-sands
Dr Ulrich Schröder (Chief Executive Officer)	750.5	742.2	218.0	275.0	87.2	88.5	1,055.7	1,105.7	–468.9[3)]	1,549.7
Dr Günther Bräunig	607.0	563.6	0.0	0.0	29.8	33.3	636.8	596.9	134.4	1,093.0
Dr Ingrid Hengster	528.5	522.6	0.0	0.0	34.8	34.8	563.3	557.4	363.2	618.8
Dr Norbert Kloppenburg[4)]	464.5	551.2	0.0	0.0	37.7	44.7	502.2	595.9	325.4	1,069.4
Bernd Loewen	590.0	583.5	0.0	0.0	38.6	37.4	628.6	620.9	292.9	787.8
Prof. Dr Joachim Nagel[5)]	86.7	0.0	0.0	0.0	7.2	0.0	93.9	0.0	456.1	0.0
Dr Stefan Peiß	527.8	521.9	0.0	0.0	25.8	34.3	553.6	556.2	416.2	595.0
Total	**3,555.0**	**3,485.0**	**218.0**	**275.0**	**261.1**	**273.0**	**4,034.1**	**4,033.0**	**1,519.3**	**5,713.7**

1) Amounts in the table are subject to rounding differences.
2) The discount rate for pension obligations increased in 2017 due to the rise in long-term capital market rates from 1.63% (31 Dec. 2016) to 1.88% (31 Dec. 2017), which accounted for a decrease in additions to pension provisions over the previous year.
3) The reversal of provisions in this amount was due to the rise in long-term capital market rates as well as the fact that Dr Schröder did not draw a pension in 2017 despite having reached retirement age in March 2017. The provisions relating to the undrawn portion of the pension were released.
4) Dr Kloppenburg resigned his membership on the KfW Executive Board during the year, with effect from 31 October 2017.
5) Prof. Dr Nagel was appointed as a member of the KfW Executive Board during the year, with effect from 1 November 2017.

Responsibilities

The Presidial and Nomination Committee has discussed the Executive Board remuneration 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 Presidial and Nomination Committee is advised on these matters by the Remuneration Committee, which in turn considers the results of certain analyses of the Risk and Credit Committee regarding the incentive effects of the remuneration systems. Likewise after consulting with the Remuneration Committee on the matter, the Board of Supervisory Directors decides upon the basic structure of the Executive Board's remuneration system.

The Presidial and Nomination Committee discussed remuneration issues on numerous occasions during the reporting year, most recently on 13 December 2017.

Fringe benefits

Other remuneration largely comprises fringe benefits. Executive Board members are entitled to a company car with driver services for business and personal use. Executive Board members reimburse KfW for using a company car with a driver for private purposes in accordance with applicable tax regulations. They are reimbursed under tax regulations for the cost of maintaining a second home for business reasons.

by a supplemental legal expenses insurance policy. KfW Executive Board members acting in their management capacity are also protected by a special legal expenses group policy for employees covering criminal activities.

No remuneration 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 remuneration 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.

In addition, the fringe benefits contain the cost of security systems at Executive Board members' homes; these benefits are not recognised as other remuneration 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 this is contractually agreed.

There were no loans to any members of the Executive Board in 2017.

No Executive Board member was granted or promised any benefits by a third party during the past financial year with a view to his position as a member of the KfW Executive Board.

Pension benefits and other benefits in the case of early retirement

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. This provision was waived for the Chief Executive Officer; he would have been above the statutory retirement age at the end of his period of office, which was renewed until 31 December 2020, if he had not stepped down from his office early, effective 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; they are also entitled to pension benefits if their employment relationship terminates due to permanent disability. Two members of the Executive Board who were first appointed to the Board in 2006 and 2007 respectively and subsequently reappointed also have the option of retiring at their own request at the age of 63. Dr Norbert Kloppenburg shall receive a contractually granted and grandfathered temporary allowance from 1 November 2017.

Pension commitments 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 PCGK is taken into account when drawing up the Executive Board contracts.

should not exceed the equivalent of two years' salary or remuneration including fringe benefits for the remainder of the contract, whichever is lower.

The full benefit entitlement totalled 49% of the final salary in the reporting year with different contractual arrangements. With the exception of the CEO serving in 2017, the retirement benefit entitlement amounted to 70% of the full entitlement for first-time appointment, with an increase per completed year of service of 0.98 to 3.0 percentage points depending on the contract (from an initial 34.3% to a maximum of 49% of the final salary).

The Executive Board contracts contain additional individual provisions, in particular concerning vesting of pension benefits. The newer contracts also include provisions on retrospective pension contributions where pension benefits are not yet vested and the member in question has not been reappointed.

Pension payments to former Executive Board members or their surviving dependants were as follows in 2017 and 2016:

Pension payments to former Executive Board members or their surviving dependants

	Headcount 2017	EUR in thousands 2017	Headcount 2016	EUR in thousands 2016
Former members of the Executive Board	20	3,510.4	19	3,421.2
Surviving dependants	8	725,8	9	804,7
Total	**28**	**4,236.2**	**28**	**4,225.9**

Provisions in the amount of EUR 65,932.3 thousand were set up at the end of the financial year 2017 for pension obligations to former members of the Executive Board and their surviving dependents (2016: EUR 66,182.9 thousand).

No loans were granted to former Executive Board members or their surviving dependants in financial year 2017.

members of the Board of Supervisory Directors pursuant to Article 7 (1) No. 1 and No. 2 of the KfW Law was set at EUR 0.

In the reporting year, remuneration for other members of the Board of Supervisory Directors pursuant to Article 7 (1) Nos. 3-7 of the KfW Law amounted to EUR 5,100 p.a.; remuneration for membership of a Board of Supervisory Directors committee was a standard amount of EUR 600 p.a. for each member. Committee chairs received no special remuneration.

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

A daily allowance (EUR 200 per meeting day) is paid and travel expenses and applicable VAT are reimbursed upon request.

The following table provides details on the remuneration paid to the Board of Supervisory Directors in financial year 2017; stated amounts are net amounts in thousands of euros. Travel expenses are reimbursed upon submission of receipts and are not taken into account in the table.

No.	Name	Dates of membership	Board of Supervisory Directors membership[1)]	Committee membership[1)]	Daily allowance	Total
		2017	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1.	Dr Wolfgang Schäuble	1 Jan. – 24 Oct.	0.0	0.0	0.0	0.0
2.	Peter Altmaier	24 Oct. – 31 Dec.	0.0	0.0	0.0	0.0
3.	Sigmar Gabriel	1 Jan. – 27 Jan.	0.0	0.0	0.0	0.0
4.	Brigitte Zypries	27 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
5.	Kerstin Andreae	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
6.	Dr Holger Bingmann	13 Dec. – 31 Dec.	0.4	0.0	0.0	0.4
7.	Anton F. Börner	1 Jan. – 26 Sept.	3.8	0.5	0.0	4.3
8.	Volker Bouffier[2)]	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
9.	Dr Uwe Brandl	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
10.	Hans-Dieter Brenner	1 Jan. – 31 Dec.	5.1	0.6	1.4	7.1
11.	Frank Bsirske	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
12.	Alexander Dobrindt	1 Jan. – 24 Oct.	0.0	0.0	0.0	0.0
13.	Georg Fahrenschon	1 Jan. – 31 Dec.	5.1	2.5	0.4	8.0
14.	Robert Feiger	1 Jan. – 31 Dec.	5.1	0.6	0.4	6.1
15.	Klaus-Peter Flosbach	1 Jan. – 31 Dec.	5.1	0.6	1.2	6.9
16.	Sigmar Gabriel	27 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
17.	Christian Görke[2)]	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
18.	Dr Louis Hagen	1 Jan. – 31 Dec.	5.1	1.2	1.4	7.7
19.	Hubertus Heil	1 Jan. – 31 Dec.	5.1	1.8	0.0	6.9
20.	Monika Heinold[2)]	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
21.	Dr Barbara Hendricks	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
22.	Reiner Hoffmann	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
23.	Gerhard Hofmann	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
24.	Andreas Ibel	1 Jan. – 31 Dec.	5.1	0.0	0.6	5.7
25.	Bartholomäus Kalb	1 Jan. – 31 Dec.	5.1	0.6	1.4	7.1
26.	Dr Markus Kerber	1 Jan. – 31 Mar.	1.3	0.3	0.0	1.6
27.	Stefan Körzell	1 Jan. – 31 Dec.	5.1	1.2	0.2	6.5
28.	Dr Joachim Lang	1 Apr. – 31 Dec.	3.8	0.9	0.0	4.7
29.	Lutz Lienenkämper	22 Sep. – 31 Dec.	1.7	0.0	0.0	1.7
30.	Dr Gesine Lötzsch	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
31.	Dr Gerd Müller	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
32.	Eckhardt Rehberg	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
33.	Joachim Rukwied	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
34.	Christian Schmidt	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
35.	Christian Schmidt (BMVI)	24 Oct. – 31 Dec.	0.0	0.0	0.0	0.0
36.	Andreas Schmitz	1 Jan. – 31 Dec.	5.1	2.5	1.8	9.4
37.	Carsten Schneider	1 Jan. – 31 Dec.	5.1	1.2	1.0	7.3
38.	Peter-Jürgen Schneider[2)]	1 Jan. – 20 Nov.	4.7	1.1	0.4	6.2
39.	Holger Schwannecke	1 Jan. – 31 Dec.	5.1	1.8	0.0	6.9
40.	Edith Sitzmann[2)]	1 Jan. – 31 Dec.	5.1	0.1	0.0	5.2
41.	Dr Frank-Walter Steinmeier	1 Jan. – 27 Jan.	0.0	0.0	0.0	0.0
42.	Prof. Dr Georg Unland[2)]	1 Jan. – 28 Dec.	5.1	0.6	1.0	6.7
43.	Dr Norbert Walter-Borjans[2)]	1 Jan. – 8 July	3.0	0.4	0.0	3.4
44.	Dr Martin Wansleben	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
Total			**151.3**	**26.9**	**13.6**	**191.8**

1) The amounts had not yet been paid out as of the reporting date 31 December 2017.
2) Amount governed by state law.

No.	Name	Dates of membership	Board of Supervisory Directors membership[1)]	Committee membership[1)]	Daily allowance	Total
		2016	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.	Kerstin Andreae	1 Jan. – 31 Dec.	5.1	0.6	0.8	6.5
4.	Jan Bettink	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
5.	Anton F. Börner	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
6.	Dr Uwe Brandl	1 Jan. – 31 Dec.	5.1	0.0	0.2	5.3
7.	Hans-Dieter Brenner	1 Jan. – 31 Dec.	5.1	0.6	1.4	7.1
8.	Frank Bsirske	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
9.	Alexander Dobrindt	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
10.	Georg Fahrenschon	1 Jan. – 31 Dec.	5.1	2.5	0.0	7.6
11.	Robert Feiger	1 Jan. – 31 Dec.	5.1	0.6	0.8	6.5
12.	Klaus-Peter Flosbach	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
13.	Christian Görke[2)]	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
14.	Hubertus Heil	1 Jan. – 31 Dec.	5.1	1.8	0.6	7.5
15.	Monika Heinold[2)]	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
16.	Dr Barbara Hendricks	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
17.	Reiner Hoffmann	1 Jan. – 31 Dec.	5.1	1.2	0.2	6.5
18.	Gerhard Hofmann	1 Jan. – 31 Dec.	5.1	1.2	0.4	6.7
19.	Bartholomäus Kalb	1 Jan. – 31 Dec.	5.1	0.6	1.4	7.1
20.	Dr Markus Kerber	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
21.	Stefan Körzell	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
22.	Dr Gesine Lötzsch	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
23.	Dr Gerd Müller	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
24.	Eckhardt Rehberg	1 Jan. – 31 Dec.	5.1	1.2	0.4	6.7
25.	Joachim Rukwied	1 Jan. – 31 Dec.	5.1	0.6	0.2	5.9
26.	Dr Nils Schmid[2)]	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
27.	Christian Schmidt	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
28.	Andreas Schmitz	1 Jan. – 31 Dec.	5.1	2.5	1.6	9.2
29.	Carsten Schneider	1 Jan. – 31 Dec.	5.1	1.2	0.8	7.1
30.	Peter-Jürgen Schneider[2)]	1 Jan. – 31 Dec.	5.1	1.2	0.2	6.5
31.	Holger Schwannecke	1 Jan. – 31 Dec.	5.1	1.8	0.0	6.9
32.	Dr Markus Söder[2)]	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
33.	Dr Frank-Walter Steinmeier	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
34.	Prof. Dr Georg Unland[2)]	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
35.	Dr Norbert Walter-Borjans[2)]	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
36.	Dr Martin Wansleben	1 Jan. – 31 Dec.	5.1	0.6	0.2	5.9
37.	Dr Kai H. Warnecke	1 Jan. – 31 Dec.	5.1	0.0	0.6	5.7
Total			**153.0**	**27.8**	**12.2**	**193.0**

[1)] The amounts had not yet been paid out as of the reporting date 31 December 2016.
[2)] Amount governed by state law.

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. Currently there are no deductibles agreed. KfW's Supervisory Directors acting in their capacity as such are also protected by a special legal expenses group policy for employees covering criminal activity 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 Republic of Germany (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 2017 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

	2017	2016	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Audit	4,418	3,945	473
Other attestation services	285	470	–184
Tax advisory services	0	13	–13
Other Services	3	0	3
Total	**4,706**	**4,427**	**279**

(84) Disclosures on unconsolidated structured entities

KfW Group's unconsolidated structured entities within the meaning of IFRS 12 relate to the following business sectors:

Structured entities in the business sector Financial markets

KfW makes investments in ABS and ABCP transactions to promote the financing of SMEs, of climate and environmental protection projects and as part of liquidity management. The business sector Financial markets also manages an existing portfolio to which no further acquisitions are added. This portfolio currently consists of securities issued since 2001. KfW's investments average less than 10% of a transaction's volume. In cases of investments for promotional purposes, the proportion of KfW's investment may be higher, but generally no more than 50% of the transaction volume.

As of 31 December 2017, the carrying amount of the positions held totalled EUR 4.7 billion (31 December 2016: EUR 4.9 billion).

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 Industries" sector departments. 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 as market participants in the commodities financing business, where KfW Group supports these customers with export pre-financing structures.

As of 31 December 2017, the carrying amount of the positions held totalled EUR 3.5 billion (31 December 2016: EUR 4.3 billion).

Structured entities in the business sector Promotion of developing countries and emerging economies

As a finance and advisory institution, DEG provides support within its development mandate 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 Federal Government. In certain isolated cases this is undertaken via investments in structured entities in the 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.

As of 31 December 2017, the carrying amount of the positions held totalled EUR 0.2 billion (31 December 2016: EUR 0.2 billion).

The following table shows the carrying amounts of assets relating to unconsolidated structured entities and the maximum possible loss that could result from these exposures.

	Loans and advances to customers	Securities and investments	Other assets	Contingent liabilities; irrevocable loan commitments
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Carrying amount	3,133	4,766	15	479
Risk and other provisions	19	0	0	1
Max. risk of loss	**3,114**	**4,766**	**15**	**478**

Maximum risk of loss as of 31 December 2016

	Loans and advances to customers	Securities and investments	Other assets	Contingent liabilities; irrevocable loan commitments
	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Carrying amount	3,669	4,983	18	857
Risk and other provisions	25	0	0	1
Max. risk of loss	**3,644**	**4,983**	**18**	**856**

The maximum risk of loss is equal to the nominal amount for credit lines, (financial) guarantees and other liquidity facilities less the provisions for credit risks 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 instruments 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.

Subsidiaries included in the consolidated financial statements

Name/registered office	Capital share	Equity (IFRS) as of 31 Dec. 2017
	%	EUR in millions
KfW IPEX-Bank GmbH, Frankfurt am Main	100.0	4,297
DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Köln	100.0	2,831
KfW Beteiligungsholding GmbH, Bonn	100.0	2,937
Interkonnektor GmbH, Frankfurt am Main	100.0	47

tbg Technologie-Beteiligungs-Gesellschaft mbH was deconsolidated effective 31 December 2017.

Associates included in the consolidated financial statements using the equity method

Name/registered office	Capital share	Equity as of 30 Sept. 2017
	%	EUR in millions
Microfinance Enhancement Facility S. A., Luxembourg	19.8	441
Green for Growth Fund, Southeast Europe S. A., Luxembourg	15.7	336
AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG, Munich	47.5	171
coparion GmbH & Co. KG, Cologne	20.0	14
Name/registered office	**Capital share**	**Equity as of 30 Dec. 2017**
	%	EUR in millions
DC Nordseekabel GmbH und Co. KG, Bayreuth	50.0	366

private household investment in energy efficiency and renewable energy in the Western Balkans and in Turkey (KfW's investment in GGF is also part of the business sector Promotion of developing countries and emerging economies). Details of GGF's business sectors as well as a summary of financial information can be found on the company's website (http://www.ggf.lu).

The business sector Mittelstandsbank (SME Bank) 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.

the North Sea, concluded a cooperation agreement in February 2015 to construct an underwater cable between Germany and Norway. The NordLink project will be realised by a syndicate, in which Statnett and DC Nordseekabel each hold a 50% stake. KfW – via its subsidiary Interkonnektor GmbH – and TenneT each hold a 50% stake in DC Nordseekabel, which is responsible for construction and obtaining permits in Germany.

coparion GmbH & Co. KG (coparion; business sector Mittelstandsbank (SME Bank)) as an associated company was accounted for using the equity method for the first time in financial year 2016.

This co-investment fund of KfW and the German Federal Ministry for Economic Affairs and Energy (BMWi) participates in young technology companies by offering venture capital, together with private lead investors.

Entities not included in the consolidated financial statements

Four subsidiaries, five joint ventures, twelve associated companies, and eight 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.

1	DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH	Cologne	100.0	EUR	1.0000	2,462,893	94,947
2	Interkonnektor GmbH	Frankfurt am Main	100.0	EUR	1.0000	47,203	–2,743
3	KfW Beteiligungsholding GmbH	Bonn	100.0	EUR	1.0000	2,088,878	95,986
B. Subsidiaries not included in the consolidated financial statements							
4	Finanzierungs- und Beratungsgesellschaft mbH	Berlin	100.0	EUR	1.0000	5,094	–60
5	tbg Technologie-Beteiligungsgesellschaft mbH	Bonn	100.0	EUR	1.0000	57,938	5,381
C. Joint ventures not included in the consolidated financial statements							
6	Deutsche Energie-Agentur GmbH (dena)	Berlin	26.0	EUR	1.0000	5,605	1,079
D. Other shareholdings (only capital shares totalling at least 20%)							
7	AF Eigenkapitalfonds für deutschen Mittelstand GmbH & Co. KG	Munich	47.5	EUR	1.0000	154,376	4,047
8	Berliner Energieagentur GmbH	Berlin	25.0	EUR	1.0000	5,757	636
9	eCapital Technologies Fonds II GmbH & Co. KG	Münster	24.8	EUR	1.0000	18,487	2,342
10	Galaxy S. à. r. l.	Luxembourg, Luxembourg	20.0	EUR	1.0000	15,442	8,215

Shareholdings of KfW IPEX-Bank GmbH

A. Subsidiaries not included in the consolidated financial statements							
1	Bussard Air Leasing Ltd.	Dublin, Ireland	100.0	USD	1.1993	–2,152	165
2	Sperber Rail Holdings Inc.	Wilmington, USA	100.0	USD	1.1993	4,787	916
B. Joint ventures not included in the consolidated financial statements							
3	Canas Leasing Ltd.	Dublin, Ireland	50.0	USD	1.1993	0	0
C. Other shareholdings (only capital shares totalling at least 20%)							
4	8F Leasing S. A.	Findel, Luxembourg	22.2	USD	1.1993	11,650	273

Shareholdings of KfW Beteiligungsholding GmbH

A. Fully consolidated subsidiaries included in the consolidated financial statements							
1	KfW IPEX-Bank GmbH	Frankfurt am Main	100.0	EUR	1.0000	3,854,653	0

1	PCC-DEG Renewables GmbH	Duisburg	40.0	EUR	1.0000	18,527	555
B. Other shareholdings (only capital shares totalling at least 20%)							
2	Aavishkaar Frontier Fund	Ebene, Mauritius	20.8	USD	1.1993	5,578	–1,261
3	Ace Power Embilipitiya Pvt Ltd.	Colombo, Sri Lanka	26.0	LKR	184.0235	3,093,310	1,113,511
4	ACON Latin America Opportunities Fund IV-A, L.P.	Toronto, Canada	39.9	USD	1.1993	45,525	8,754
5	Acon Latin America Opportunities	Toronto, Canada	40.0	USD	1.1993	49,258	–4,625
6	ACON Retail MXD, L.P.	Toronto, Canada	100.0	USD	1.1993	14,066	–8,489
7	Adobe Mezzanine Fund II Limited Partnership	Mexico D.F., Mexico	23.7	MXN	23.6215	0[4)]	0[4)]
8	Adobe Social Mezzanine Fund I, L.P.	Montreal, Canada	24.8	USD	1.1993	9,857	–1,153
9	ADP Enterprises W.L.L.	Manama, Bahrain	23.3	BHD	0.4521	216,832	65,930
10	Advent Latin American Private Equity Fund III-B L.P.	Wilmington, USA	100.0	USD	1.1993	1,264	–155
11	AEP China Hydro, Ltd.	Ebene, Mauritius	30.2	USD	1.1993	60,394	12,832
12	Apis Growth 2 Ltd.	Ebene, Mauritius	25.6	USD	1.1993	35,871	5,414
13	Aqua Agro Fundo de Investimento em Participações	São Paulo, Brazil	29.9	BRL	3.9711	101,903	–214
14	Asia Insurance 1950 Public Company Ltd.	Bangkok, Thailand	24.6	THB	39.1005	492,118	53,458
15	Banyan Tree Growth Capital, L.L.C.	Port Louis, Mauritius	27.0	USD	1.1993	65,595	4,779
16	Benetex Industries Ltd.	Dhaka, Bangladesh	28.3	BDT	99.2228	0[5)]	0[5)]
17	Berkeley Energy Wind Mauritius Ltd.	Ebene, Mauritius	25.8	EUR	1.0000	100,619	3,576
18	Bozano Investimentos Growth Capital Fund I-B L.P.	Brazil	31.3	BRL	3.9711	0[4)]	0[4)]
19	CGFT Capital Pooling GmbH & Co. KG	Berlin, Germany	40.0	EUR	1.0000	–69	–31
20	CoreCo Central America Fund I L.P.	Wilmington, USA	22.0	USD	1.1993	10,260	–64
21	Darby Latin American Private Debt Fund IIIA L.P.	Toronto, Canada	75.0	USD	1.1993	0[4)]	0[4)]
22	Deep Catch Namibia Holdings (Proprietary) Ltd.	Windhoek, Namibia	30.0	NAD	14.8358	111,300	346
23	Emerald Sri Lanka Fund I Ltd.	Port Louis, Mauritius	23.5	USD	1.1993	5,116	–1,049
24	Emerging Europe Leasing and Finance (EELF) B.V.	Amsterdam, Netherlands	25.0	EUR	1.0000	4,021	580

25	EMF NEIF I (A) L.P.	Southampton, UK	28.1	USD	1.1993	35,716	10,342
26	EMX Capital Partners L.P.	Mexico D.F., Mexico	20.1	USD	1.1993	49,349	1,347
27	Equis DFI Feeder, L.P.	George Town, Cayman Islands	37.0	USD	1.1993	8,899	125
28	Frontier Bangladesh II L.P.	Grand Cayman, Cayman Islands	20.0	USD	1.1993	439	–2,830
29	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet	São Paulo, Brazil	39.7	BRL	3.9711	35,087	9,206
30	Global Credit Rating Company Ltd.	Road Town, British Virgin Islands	27.0	USD	1.1993	1,347	4,338
31	Grassland Finance Ltd.	Hong Kong, Hong Kong	24.9	HKD	9.3700	424,285	–24,709
32	Kendall Court Mezzanine (Asia) Bristol Merit Fund, L.P.	George Town, Cayman Islands	24.4	USD	1.1993	14,683	–14
33	Kibele B.V.	Amsterdam, Netherlands	22.3	USD	1.1993	4,517	–4.202
34	Knauf Gips Buchara OOO	Bukhara, Uzbekistan	25.0	UZS	9,691.4300	152,633,390	23,025,185[4)]
35	KNAUF Gypsum Philippines Inc.	Makati City, Philippines	25.1	PHP	59.7950	205,180	–34,570
36	Leiden PE II, L.P.	Toronto, Canada	27.0	USD	1.1993	8,290	–1,460
37	Lereko Metier REIPPP Fund Trust	Sandhurst, South Africa	32.3	ZAR	14.8054	94,097	17,186
38	Lereko Metier Solafrica Fund I Trust	Johannesburg, South Africa	47.5	ZAR	14.8054	191,069	51,449
39	Lovcen Banka AD	Podgorica, Montenegro	28.1	EUR	1.0000	8,548	199[4)]
40	MC II Pasta Ltd.	Qormi, Malta	36.1	EUR	1.0000	15,985	–623
41	Medisia Investment Holdings Pte Ltd.	Singapore, Singapore	32.7	USD	1.1993	59,583	19,333
42	Metier Retailability en commandite Partnership	Sandhurst, South Africa	23.8	ZAR	14.8054	564.057	–10,174
43	Navegar II (Netherlands) B.V.	Amsterdam, Netherlands	29.2	USD	1.1993	44.675	–2,794
44	OAO Bucharagips	Bukhara, Uzbekistan	24.9	UZS	9,691.4300	19,592,898	7,852,917
45	Orilus Investment Holdings Pte. Ltd.	Singapore, Singapore	33.0	USD	1.1993	67,684	–223
46	Phi Capital Trust	Chennai, India	22.5	INR	76.6055	0	237,050
47	Russia Partners Technology Fund, L.P.	Grand Cayman, Cayman Islands	21.6	USD	1.1993	126,367	–1,406
48	Stratus Capital Partners B L.P.	Edinburgh, UK	73.3	USD	1.1993	9,098	3,968

49	Takura II Feeder Fund Partnership	Cape Town, South Africa	24.8	USD	1.1993	28,508	6,086
50	The SEAF Central and Eastern Europe Growth Fund (SEAFGF) LLC	Washington, D.C., USA	23.9	USD	1.1993	3,425	–1,416
51	Tolstoi Investimentos S.A.	São Paulo, Brazil	31.1	BRL	3.9711	0[5)]	0[5)]
52	TOO Isi Gips Inder	Rajon Inderski, Kazakhstan	40.0	KZT	398.7500	1,115,640	123,632
53	TOO Knauf Gips Kaptschagaj	Kapchagay, Kazakhstan	40.0	EUR	1.0000	22,119	6,183
54	Unibank Commercial Bank OJSC	Baku, Azerbaijan	24.4	AZN	2.0499	–87,287	–117,132
55	Whitlam Holding Pte. Ltd.	Singapore, Singapore	38.7	USD	1.1993	28,938	1,410
56	Worldwide Group, Inc	Charlestown, Saint Kitts and Nevis	32.3	USD	1.1993	22,740	758

Shareholdings of Interkonnektor GmbH

A. Joint ventures included in the consolidated financial statements							
1	DC Nordseekabel GmbH & Co. KG	Bayreuth	50.0	EUR	1.0000	365,792	33,613
B. Joint ventures not included in the consolidated financial statements							
2	DC Nordseekabel Beteiligungs GmbH	Bayreuth	50.0	EUR	1.0000	50	0
3	DC Nordseekabel Management GmbH	Bayreuth	50.0	EUR	1.0000	100	0

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 the start-up phase; no annual financial statements have been prepared yet.
5) No current annual financial statements are available.
The data is based on the most recent annual financial statements available from the associated company (where available).

Attestation

management report

Opinions

We have audited the consolidated financial statements of KfW, Frankfurt am Main, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December, 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January, 2017 to 31 December, 2017, and notes to the financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of KfW for the fiscal year from 1 January, 2017 to 31 December, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2017 and of its financial performance for the fiscal year from 1 January, 2017 to 31 December, 2017, and

– the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

[1)] Translation of the independent auditors' report issued in German language on the consolidated financial statements prepared in German language by the Executive Board of KfW, Frankfurt am Main. The German language statements are decisive.

Group” as well as the sections “Key figures of KfW Group“ and “Overview of KfW“ of the Financial Report 2017, which we obtained prior to the date of this auditor’s report, and the Letter of the Executive Board, the Report of the Board of Supervisory Directors as well as the sections “Members and tasks of the Board of Supervisory Directors”, “Thinking ahead“ and “Making an impact“ of the Financial Report 2017, which are expected to be made available to us after that date.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of the Executive Board and the Board of Supervisory Directors for the consolidated financial statements and the group management report

The Executive Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the Executive Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the Executive Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Board of Supervisory Directors is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

– Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.

– Conclude on the appropriateness of the Executive Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

– Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Eschborn, 27 February 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Wagner	Dombek
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

(German Public Auditor) (German Public Auditor)

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft
Eschborn, Germany
May 11, 2018

By: /s/ CHRISTOF HARZER

Name: Christof Harzer

Title: Ministerialrat, Federal Ministry of Finance, Berlin