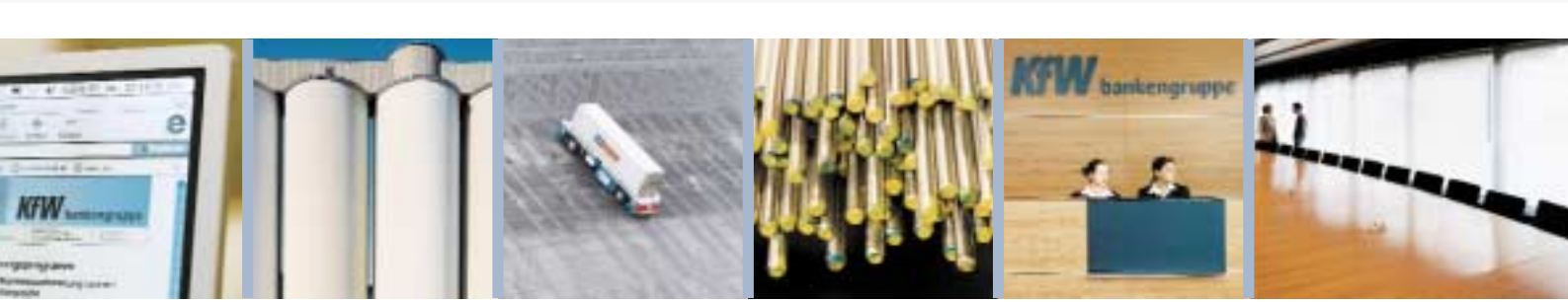


ANNUAL REPORT 2002





KEY IMAGES OF THE YEAR 2002.

The KfW Group supports promising ideas and projects in Germany, Europe and overseas. It gives important stimulus for the economy, society and ecology all over the world. The year 2002 was another very eventful year for us, with a wide range of national and international projects. We present the highlights of the past year as seen by KfW on pages 14 to 39 of this Report.

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BOARD OF MANAGING DIRECTORS OF KFW.



Dr. Peter Klaus



Detlef Leinberger



Hans W. Reich (Chairman)



Ingrid Matthäus-Maier



Wolfgang Kroh

THE BOARD OF MANAGING DIRECTORS.

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

GENERAL MANAGER.

Dr. Günther Bräunig

DIRECTORS.

Michael Ebert
Werner Genter
Dr. Dieter Glüder
Dr. Volker Groß
Heinrich Heims

Dr. Norbert Kloppenburg
Gerhard Lewark
Christian Murach
Dr. Hanns-Peter Neuhoff
Werner Oerter

Christiane Orłowski
Dr. Walter Paul
Ludolf Rischmüller
Wolfgang Roßmeißl
Dr. Bernd Schreiber

Gunnar Seibert
Dietrich Suhlrie
Detlef Vogt
Bruno Wenn

KEY FIGURES FOR KfW.

Key Figures for KfW EUR million

	2000	2001	2002
Total volume of promotion	39,708.4	41,875.8	54,787.7
I. Investment promotion in Germany	25,524.2	28,678.5	46,202.9
a) Promotional loans in Germany	16,194.0	19,387.9	20,979.5
1. Small and medium-sized enterprises	7,536.2	6,629.4	6,481.8
2. Environmental protection/renewable energies	910.3	1,355.1	1,318.3
3. Housing	4,764.3	8,431.5	10,346.2
4. Municipal infrastructure ¹⁾	2,983.2	2,971.9	2,833.2
b) Guarantees and securitizations	3,512.8	5,158.4	20,047.1
1. Of which: securitizations			
– Promise	3,500.0	2,650.0	7,775.6
– Provide	–	2,500.0	12,267.7
c) Project finance in Germany	5,817.4	4,132.2	4,226.3
Of which:			
1. Project loans	4,860.8	3,457.6	3,801.2
2. Guarantees	752.0	589.5	422.6
3. Grants in Germany	104.6	60.1	2.6
d) Funding state promotional institutes	–	–	950.0
II. Investment promotion abroad²⁾	1,579.0	1,764.2	1,155.2
III. Export and Project finance	11,091.4	8,409.6	6,139.0
a) Export and project loans	10,595.2	7,775.5	5,583.6
b) Guarantees	347.8	435.2	536.7
c) Funding AKA export loans	–	11.9	14.7
d) Grants abroad	148.4	187.1	4.0
IV. Promotion of the developing countries	1,513.8	3,023.5	1,290.7
a) FC commitments at preferential conditions	926.8	1,316.5	1,110.7
1. From budget funds	850.8	1,040.3	970.7
<i>Of which: loans</i>	<i>309.9</i>	<i>546.1</i>	<i>291.0</i>
<i>Of which: grants</i>	<i>540.9</i>	<i>494.2</i>	<i>679.7</i>
2. From market funds in composite finance/ mixed finance	76.0	225.1	125.0
3. Interest rate reduction	0.0	51.1	15.0
b) Commitments for FC promotional loans	525.0	1,546.0	41.0
c) Mandates	62.0	161.0	139.0
Total lending	34,298.1	34,936.4	33,082.5
Total guarantees and securitizations	4,612.6	6,183.0	21,006.4
Total grants	797.7	756.4	698.9
Volume of business³⁾	256,505	282,272	321,731
Balance sheet total³⁾	222,639	244,448	259,674
Capital and reserves³⁾	6,205	6,925	7,580
Net income for the year	205	186	220
Number employed	2,032	2,190	2,264

¹⁾ Including other structural measures

²⁾ Including KfW Programme for Small and Medium-Sized Enterprises (Abroad), KfW Environmental Programme (Abroad) and global loans in Europe

³⁾ In contrast to the previous year's statements, this year the outstanding deposits are not shown on the Assets side but deducted from the subscribed capital and shown as equity. The previous year's figures have been adjusted accordingly. Differences in the totals are due to rounding.

REPORT OF THE BOARD OF SUPERVISORY DIRECTORS.

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

In each of these meetings the Board of Managing Directors gave up to the minute reports on the development and outlook in the various fields of business and on principle issues in corporate policy and strategy. They gave information on the understanding between the European Commission, the Federal Government and KfW that will lead to the establishment of an independent subsidiary to handle export and project finance, and on the position reached in the merger of DtA and KfW, with the envisaged establishment of a "Mittelstandsbank" (SME Bank) within KfW.

As well as the continuance of the lending programmes the Board of Managing Directors gave detailed information on the intended securitization transactions, the conditions in the new "Capital for Work" promotional programme and the assistance provided by KfW to repair flood damage. The country and sector risks on individual commitments in export and project finance were discussed. At regular intervals the Board of Managing Directors explained the borrowing in the capital markets and reported on key figures in the Group's financial statements. The Loan Approvals Committee concerned itself with the commitments that have to be presented under the Law and By-Laws. The procedure and method of KfW's country rating system were explained in detail and discussed. In addition,

the Committee was given detailed information on the new risk control arrangements for the areas of business and the planning for the Group's fields of business as well as the reorganization of the departments in KfW that are engaged in Financial Cooperation with developing countries.

The Advisory Council for Promotional Measures in the New Federal States discussed the financing of infrastructure measures and the financing prospects for German firms in view of the changes in the financial markets and the Basel II regulations.

During the year under review Dr. Werner Müller, Kurt Bodewig, Wolfgang Gerhards, Dr. Frank Heintzeler, Dieter Schulte and Peer Steinbrück left the Board of Supervisory Directors. The Board of Supervisory Directors thanks these former members for their intensive cooperation and valuable commitment to the concerns of the bank. Wolfgang Clement, Dr. Rolf-E. Breuer, Professor Dr. Karl-Heinz Paqué, Dr. Thilo Sarrazin, Michael Sommer and Dr. Manfred Stolpe joined the Board of Supervisory Directors.

PwC Deutsche Revision AG, Frankfurt am Main, who were appointed auditors by the Supervisory Authority following the proposal by the Board of Supervisory Directors, have examined and unconditionally confirmed the Annual Financial Statements drawn up by the Board of Managing Directors as of December 31, 2002. The Board of Supervisory Directors approved the Annual Financial Statements in accordance with § 9, Paragraph 2 of the KfW Law in its meeting on May 2, 2003.

Frankfurt am Main, May 2, 2003

THE BOARD OF SUPERVISORY DIRECTORS



Chairman



Hans Eichel
Federal Minister of Finance

BOARD OF SUPERVISORY DIRECTORS.

DUTIES OF THE BOARD OF SUPERVISORY DIRECTORS.

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

Hans Eichel
Federal Minister of Finance
Chairman

Dr. Werner Müller
Federal Minister of
Economics and Technology
Deputy Chairman
(until October 21, 2002)

Wolfgang Clement
Federal Minister of
Economics and Labour
(since October 22, 2002)
Deputy Chairman
(since November 6, 2002)

Peter Benz
Lord Mayor of the City of Darmstadt
Representative of the Municipalities

Kurt Bodewig
Federal Minister of Transport,
Building and Housing
(until October 21, 2002)

Anton F. Börner
President of the Bundesverband
des Deutschen Groß- und Außen-
handels e.V.
Representative of Trade

Dr. Rolf-E. Breuer
President of the Bundesverband
deutscher Banken e.V.
Representative of the
Commercial Banks
(since February 10, 2002)

Dr. Ulrich Brixner
Chairman of the Board of Managing
Directors of DZ BANK AG
Representative of the
Cooperative Banks

Joschka Fischer
Federal Minister of Foreign Affairs

Lutz Freitag
President of the GdW Bundesverband
deutscher Wohnungsunternehmen e.V.
Representative of Housing

Dr. Rolf-Jürgen Freyberg
Spokesman of the Board of
Managing Directors of BGAG
Beteiligungsgesellschaft der
Gewerkschaften AG
Representative of the Trade Unions

Wolfgang Gerhards
Minister of Finance of the State
of Saxony-Anhalt (ret.)
Member appointed by the
Bundesrat (Upper House)
(until September 18, 2002)

Dr. Frank Heintzeler
Spokesman of the Board of
Managing Directors of
Baden-Württembergische Bank AG
Representative of the Commercial
Banks
(until February 9, 2002)

Dr. Dietrich H. Hoppenstedt
President of the Deutscher
Sparkassen- und Giroverband e.V.
Representative of the Savings Banks

Dr. Karsten von Köller
Chairman of the Board of Managing
Directors of EUROHYP AG
Representative of the Mortgage
Banks

Ursula Konitzer
ver.di Bundesvorstandsmitglied (ret.)
Representative of the Trade Unions

Renate Künast
Federal Minister of Consumer
Protection, Food and Agriculture

Prof. Dr. Karl-Heinz Paqué
Minister of Finance of the State
of Saxony-Anhalt
Member appointed by the
Bundesrat (Upper House)
(since November 8, 2002)

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

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

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

Dr. Thilo Sarrazin
Senator for Finance of the State
of Berlin
Member appointed by the
Bundesrat (Upper House)
(since March 22, 2002)

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

Dr. Franz Schoser
Managing Director of the
Deutscher Industrie- und
Handelskammertag (ret.)
Representative of Industry

Dieter Schulte
Chairman of the Deutscher
Gewerkschaftsbund (ret.)
Representative of the Trade Unions
(until December 31, 2002)

Michael Sommer
Chairman of the Deutscher
Gewerkschaftsbund
Representative of the Trade Unions
(since January 1, 2003)

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

Peer Steinbrück
Minister of Finance of the State
of North Rhine-Westphalia (ret.)
Member appointed by the
Bundesrat (Upper House)
(until November 20, 2002)

Dr. Manfred Stolpe
Federal Minister of Transport,
Building and Housing
(since October 22, 2002)

Erwin Teufel
Minister President of the State
of Baden-Württemberg
Member appointed by the
Bundesrat (Upper House)

Dr. Alexander von Tippelskirch
Spokesman of the Board of
Managing Directors of
IKB Deutsche Industriebank
Aktiengesellschaft
Representative of the Industrial
Loan Banks

Jürgen Trittin
Federal Minister of the Environ-
ment, Nature Protection and
Reactor Safety

Heidmarie Wieczorek-Zeul
Federal Minister of Economic
Cooperation and Development

LETTER FROM THE BOARD OF MANAGING DIRECTORS.

Dear Readers,

The KfW Group had an extraordinarily eventful year in 2002. Never before were so many fundamental and strategic decisions on the direction of the bank taken in one business year as in the

past year. Moreover, despite a difficult environment in the world economy we were able to close our 2002 financial year with success, in both our promotional activities and our result.

SETTING THE STRATEGIC SIGNALS.

An outstanding event for KfW last year only came in December, when the Federal Government took the decision to merge Deutsche Ausgleichsbank with KfW. Under the roof of the KfW Group we will unify the promotional activities of the two banks and with our new trademark, "Die Mittelstandsbank" or SME Bank, we will create a new area of promotion concerned exclusively with new businesses and small and medium-sized enterprises. The Mittelstandsbank has been evident to customers as the "Promotional Initiative of KfW and DtA" since January 2003, and it will make the promotion of new businesses and SMEs much more efficient and transparent. Combining the competences of the two banks will also enable us to open up new potentials in promotion. The Mittelstandsbank is the sign of new impetus for the SME sector in Germany and KfW will accord the highest priority to this project in the current year.

The other decision of at least equal importance for KfW came on March 1, 2002. This was the understanding reached by the Federal Government and the European Commission on the new direction of the German promotional banks. After a short period of negotiation agreement was reached with the European Commission on separating our promotional activities

from our commercial business in export and project finance. This understanding, which preserves the Federal Government's institutional liability (the "Anstaltslast") and its refinancing guarantee for the bank's promotional business for the future, ensures that we will be able to continue to support the German and European economies with the entire range of the products of the KfW Group. Our export and project finance will then be handled largely by a subsidiary which is to be set up by 2008, and for which we have already well advanced the preparatory work. We were able to complete the concept for the products, the structure of the organization and the processes in the spring of 2003, and we aim to test the new structure in a "bank within the bank" from 2004.

Both the implementation of the understanding with the EU and the merger of DtA with KfW require amendments to the legislation. These have already been passed by the Federal Cabinet and they are expected to be passed by the Bundestag (the Federal Parliament) in the first half of 2003. That will lay the main foundation stones for the KfW Group of the future.

THE COURSE OF OUR BUSINESS IN 2002.

The figures for the KfW Group showed a very successful development in 2002. The Group balance sheet total grew from EUR 246 billion to EUR 261 billion. The total volume of promotion by KfW in 2002 was EUR 54.8 billion, which was also a considerable year-on-year rise. This successful development is reflected in the record volumes in our funding. Our Euro Benchmark bonds were able to profit from this success following the very positive response to their introduction in 2001. We therefore set up a corresponding programme for the US dollar, which was also very well received in the markets.

The discussion over financing the SME sector continued to grow in intensity in 2002. The marked changes in the financial sector and the cyclical weakness are making it difficult for small and medium-sized firms to gain access to the capital they need. Hence, last year as well we were deeply committed to promoting small and medium-sized firms and securing finance for them. The new financing instruments we developed for this ease the strain on the banks' capital structure and at the same time keep access to the capital they need open for the firms. The instruments are also strictly market-oriented. They take greater account of the financial standing of a firm and set the conditions by the current risks. We have set up a four-point programme to give our SME promotion a new direction:

- The first of these is the global loan, which was successfully introduced in 2001. It enables the banks to refinance their SME loans at favourable conditions. Then the banks and savings banks hand on the favourable borrowing conditions, which KfW can offer on the basis of its first-class AAA rating, to their borrowers in the form of customized individual loans. KfW was able to provide funds totalling EUR 1.3 billion

for German small and medium-sized firms in this way.

- The second point in the programme is the systematic promotion of the SME segment of the equity finance market. For a long time access to equity finance capital was limited to young, dynamic, technology-based firms and large industrial firms. We want to open up a route to the equity finance market for sound SMEs with a different structure, and operating in other sectors as well, with new private equity initiatives. One important step to improve the equity capital situation for SMEs was the start of the programme "Capital for Work" in November 2002. The conditions of the programme, which consists of one tranche of borrowed funds and one equity capital tranche, are oriented to the financial standing of the borrower. In this way the aim of the programme, to reduce unemployment, is intelligently combined with improving the financing structure.

- The third element in the four-point programme is to reduce the handling and processing costs on SME loans, that at present are making the loans too expensive for many firms, particularly the smaller ones. We are currently working out the necessary solutions in cooperation with partners.

- The fourth point, finally, covers KfW's very successful securitization programmes, which make the risks on SME loans tradeable in the capital market. KfW's securitization programmes have developed within a short time to an essential element in the promotion of small and medium-sized firms and housing construction in Germany. With a securitized loan portfolio volume of more than EUR 20 billion KfW played the major role in helping to develop this sector in 2002. The risks assumed by KfW here are secured by bank guarantees or sold in the capital market. KfW will continue to work to ensure

that the securitization segment of the capital market acquires an even firmer and broader foundation through better taxation and legal conditions.

Promotion of the housing sector, the municipal infrastructure and environmental protection are other major areas of our promotional activities.

In 2002 we committed loans totalling EUR 10.3 billion for investment in the housing sector alone – for the purchase of homes, to modernize the housing stock in the eastern states and for energy-saving measures in the existing housing stock. For example, we enabled 118,000 families to fulfil their dream of owning their home, and we funded measures to reduce CO₂ emission in more than 100,000 homes. These financings also make a considerable contribution to securing jobs, especially in small or medium-sized local building firms.

A particularly important cross-sectoral task for KfW is to promote environmental and climate protection, beyond our business area of investment finance for Germany and Europe. In our investment finance alone we committed EUR 3.8 billion in 2002 for environmental and climate protection investment, and across all our fields of business the figure was EUR 5.8 billion.

One of our important international tasks is Financial Cooperation with developing countries. In 2002 we committed funds totalling EUR 1.3 billion to promote developing countries. Half of all the commitments were for measures directly to alleviate poverty. The greater part of the tensions and conflicts worldwide have their roots in poverty and the lack of economic and social development. The flash points and centres of conflict during the past year have again brought the subject of development aid back to

the forefront, and made us more aware that combatting poverty and Financial Cooperation are important in preventing wars and crises, and that they help to remove the grounds on which terrorism flourishes. In contrast to military operations development aid is strategic investment in the future. As one example, KfW provided EUR 9 million under Financial Cooperation to improve the electricity network in Kabul. Road lighting, hospitals and schools now have electricity again. KfW's competence in development cooperation is acknowledged, not only in Germany but internationally as well, and in 2002 the bank accepted mandates totalling EUR 139 million for other bilateral and multilateral donors (i.a. the EU and the UN). Internally, we have completely reorganized our Financial Cooperation. We have placed the needs of our customers in the centre of a new structure that can work faster and more effectively. The work is now organized into five regions that are strategically and thematically aligned with the priority areas of promotion of the BMZ.

The continued weakness in the world economy is evidently reflected in our export and project finance. Commitments abroad were EUR 6.1 billion last year, a marked fall from the previous year. However, we are very satisfied with this result in view of the difficult world economic environment. We are expecting a restrained business trend for this year as well, as the economic situation is still uncertain. Despite the difficult conditions KfW will remain true to its task of supporting the German, and increasingly the European economy as well, in their international commitments but without taking undue risks for the purpose.

Again we are presenting the main events of 2002 in calendar form. You will find them on pages 14–39.

OUTLOOK.

In view of the continued difficulties in the international economic situation the KfW Group is facing major challenges again this year. The far-reaching economic changes and the demanding social reforms needed in Germany constitute enormous challenges to all who bear responsibility in the economy, politics and society, and they require far-reaching decisions from them. As a promotional bank KfW also faces these demands – as our corporate model says "Promotion is our Task". We take that task very seriously, particularly in a difficult economic environment. We will continue to act as partner in good and bad times with modern financing instruments for small and medium-sized enterprises. However, we are also aware that our instruments alone are not enough to stimulate the economy. On the contrary, only when the economy begins to recover will the propensity to invest increase again and with it the demand for loans. So we are expecting the volume of promotion in 2003 to be about on the same level as in 2002.

In our organization we will continue to advance the restructuring of the Group. The mer-

ger of DtA and KfW should be legally completed before August 31, 2003, when the Bundestag has considered the necessary amendments to the laws, and this will enable the merger to be backdated to January 1, 2003. By then we will have restructured the promotional programmes of DtA and KfW, simplifying them and making them more transparent. We aim to be able to offer start-up businesses and SMEs the new range of promotion by the KfW Group this summer. The organization of KfW's new subsidiary, our Bank for Export and Project Finance, is to be completed by the end of this year, although the new bank will only become an independent legal entity in January 2008.

KfW's successful development last year is also the result of the excellent achievement of the men and women on our staff. Our thanks and acknowledgement go to them. We will count on their valuable commitment in future, too. Now our primary concern in personnel policy is to offer the more than 800 staff members of DtA a new professional home in KfW. We extend a very warm welcome to them.

Frankfurt am Main, May 2003

Yours faithfully
The Board of Managing Directors

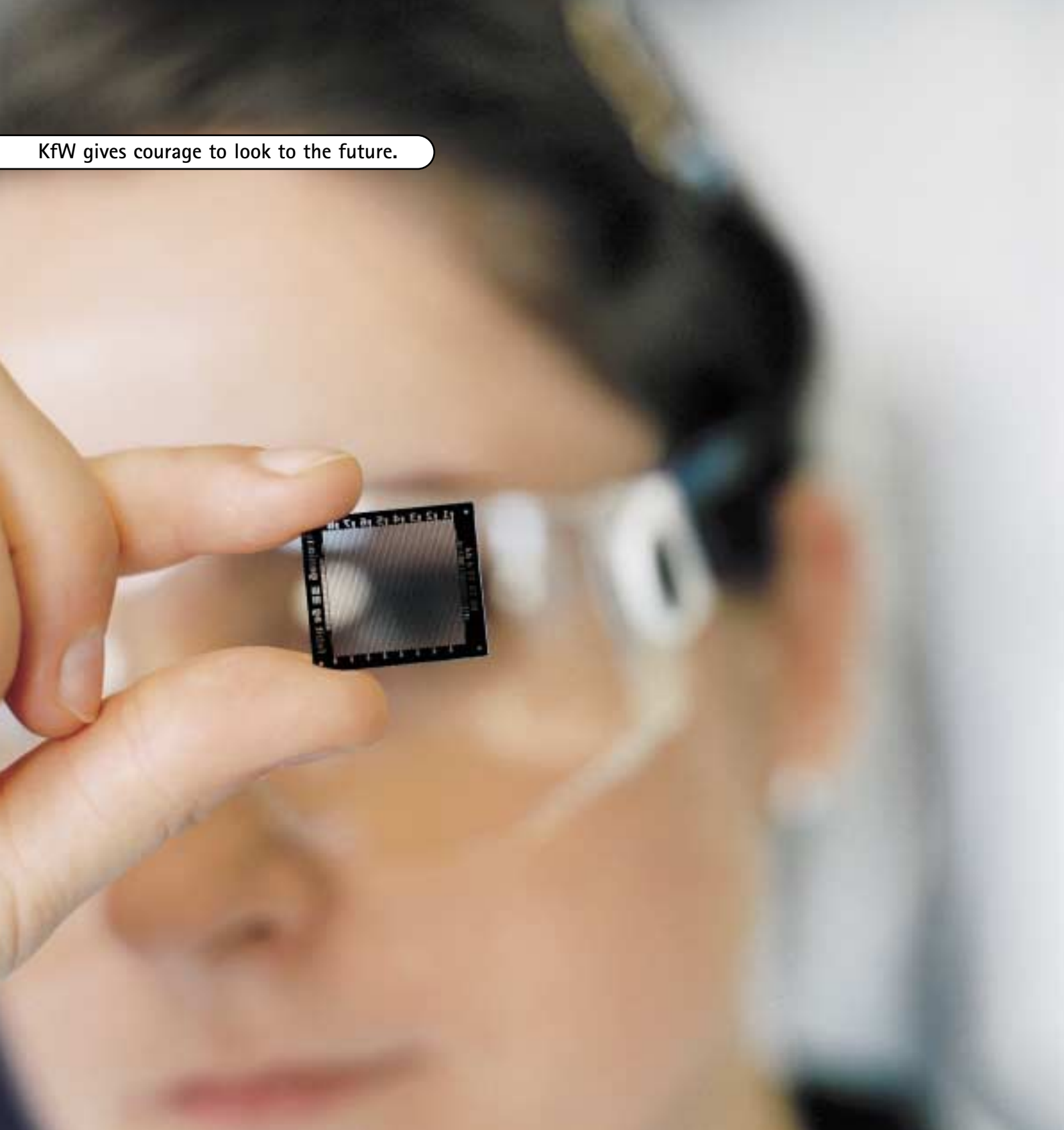
KFW IN 2002.



SURVEY OF THE MOST IMPORTANT EVENTS.

KfW bankengruppe





KfW gives courage to look to the future.

Innovations are the key to the future. Every year hundreds of young firms grasp this key and use it to open the door to new markets. One of these start-up firms is febit ag. This biotech company in Mannheim has put a fully automatic DNA technology on the market that is unique worldwide. The company has developed an analysis tool that can answer any question on genetics from any source – research, industry or

KFW IN JANUARY 2002.

Prize-winning innovation.

The 2001 German Industry Innovation Prize for Start-Ups sponsored by KfW goes to febit ag.

Helping to change Eastern German cities.

KfW promotes the reduction of empty residential housing in the new federal states and opens its Housing Modernization Programme II for the appropriate measures.

Support for Central America.

In Central America alleviating poverty and investing in social areas are the main concern of FC. KfW is promoting the reconstruction work following the earthquake in El Salvador.



medical practice – without delay. For this pioneering technology febit ag has been awarded the 2001 German Industry Innovation Prize for Start-Ups. The prize is sponsored by KfW to encourage young firms to push the door to the future wide open.

Promoting SMEs.

KfW handles the European SME Fund for Montenegro, where SMEs can now obtain loans from their local banks under the programme.

KfW office in Hanoi opens.

KfW opens an office in Hanoi. The main focus of cooperation with Vietnam is to combat poverty by developing the rural areas.

Clean water for Zagreb.

KfW provides a loan to build a modern sewage treatment plant in Zagreb.

KfW steps in for pelicans.



The ceremony for World Wetlands Day 2002 is held beside the Great Prespa Lake in the three-country triangle between Albania, Macedonia and Greece. The Prespa lakes are some of the oldest inland waters in the world and in these wetlands the crested pelican breeds. It is a species threatened with extinction. The wetlands are also home to other endangered species, like the brown bear and the lynx. The region is only very

KFW IN FEBRUARY 2002.

Caring for nature.

KfW is promoting the wetlands nature reserve at the Prespa Lakes.

Business Angels Forum gathers momentum.

Three years after the German Business Angels Network was introduced the free Internet platform has become an important market place for Business Angel financings.

Growing demand.

The new Ordinance on Energy Saving comes into force. It increases demand for KfW's CO₂ programme and finance for KfW low-energy houses.



thinly populated, but inappropriate use of land and water, and poaching, are threatening the eco system. The problem is the poverty of the inhabitants. Together with UNDP and the Prespa Park Coordination Committee KfW is preparing a project to save the nature reserves. It includes measures to stabilize the ecology and hydrology of the lakes and improve the local people's earnings.

BHW relies on PROVIDE.

BHW Bausparkasse is the first mortgage bank in Germany to securitize a portfolio of private housing construction loans through the KfW PROVIDE securitization platform.

More mobility for Indonesia.

KfW finances a passenger ferry for Indonesia. The ferry will improve the mobility of the people in the Archipelago and so promote economic activity.

Saving the rain forest.

Through KfW the Federal Government provides more funds for Brazil to protect the rain forest.



The New KfW is Still the Old KfW.

The Federal Ministry for Finance and the European Commission agree in Brussels on the future structure of the promotional banks in Germany. KfW can perform the full range of its promotional tasks in future, too. The European Commission had required KfW to separate its promotional and commercial banking business. But it also recognized that the bank rightly has Federal Government backing in the institutional liability

KFW IN MARCH 2002.

Establishing a new subsidiary.

KfW will transfer parts of its export and project finance to a new, independent subsidiary by 2008.

With wit and parodies.

A satirical programme that holds the mirror up to KfW staff launches a discussion on all the aspects of the KfW Compass.

A new loan variant for municipalities.

A new loan variant, the "Framework Loan" is introduced to the KfW Infrastructure Programme. It meets with a very good response from the municipalities.



(Anstaltslast) and the refinancing guarantee. In future the KfW Group will have a new member bank, operating commercially in foreign and selected domestic business and competing in the banking market. From 2008 at the latest it will be an independent legal entity, as agreed with the EU. KfW will remain a reliable partner for the export industry under the new conditions as well.

Electricity for China's provinces.

KfW helps China to construct photovoltaic plants to provide up to 170 villages in the remote provinces of Yunnan and Xinjiang with electricity for the first time.

A guest in Berlin.

The Afghan President Hamid Karsai visits the KfW Berlin Branch.

A successful development conference.

KfW attends the United Nations Conference on Development Finance in Monterrey, Mexico.

KfW Starts China's Steel Rolling.



Even ten years ago Shanghai was only a "big village". Much has changed since then. Today Shanghai is the most important business centre in the People's Republic of China and the country's door to the capitalist world. In Pudong, Shanghai's industrial centre, foreign investors have set up numerous joint venture firms in recent years. One is ThyssenKrupp Stainless GmbH, which set up a new stainless steel works in Pudong

KfW IN APRIL 2002.

German steel for China.

KfW finances the establishment of a Sino-German stainless steel works.

A big attendance.

KfW and the German Stock Exchange organize the German Equity Capital Forum in Frankfurt for 500 representatives of companies and capital investors.

More intensive cooperation.

At their second meeting high-ranking NEFI representatives sign a new cooperation agreement to deepen and widen their cooperation.



with the Shanghai Baosteel Group. The first phase was started in November 2001 with a capacity of 72,000 t of cold rolled stainless steel a year. Now the second phase is due to start; it will raise the capacity to 290,000 t a year. As in the first phase KfW is again taking over part of the financing.

Changes in financing.

KfW and business associations present a study on the financing behaviour patterns of German firms in the changing conditions in the financial markets and Basel II.

A successful second bond issue.

KfW International Finance Inc. has floated a USD bond issue for US\$ 3 billion. This is the second issue in its new USD programme, which started in January 2002.

World Health Day.

KfW is promoting work to help prevent AIDS and tuberculosis and to provide basic medical care worldwide.

KfW brings hope to Kabul.



Twenty-three years of war and civil war have scarred the capital of Afghanistan. Kabul is in ruins. The infrastructure has been destroyed, the roads are dust tracks. Now that the Taliban have been defeated the work of reconstruction is starting. KfW started working in Kabul in January 2002, and since then much has been done. The first schools have been set up, and for many girls and boys they are an important step back to

KFW IN MAY 2002.

The first visible signs of success.

KfW has been involved since January 2002 in rebuilding the capital of Afghanistan that was destroyed in the war.

Cooperation intensified.

For the first time KfW provides state promotional institutes with funds at market conditions for promotional activities outside the KfW programmes.

Promoting decentralization in Peru.

KfW is supporting the Peruvian Government in implementing its decentralization strategy. Other key areas for FC are water supplies and resource protection.



normality. Main roads have been resurfaced and street lighting installed to make the streets safer for the people after nightfall. The water supply equipment is being repaired, clinics rebuilt and the electricity supplies restored. As soon as the security situation permits the reconstruction programme will be extended to other towns in Afghanistan.

New ways of supplying energy.

In South Africa KfW is promoting the use of renewable energies to electrify outlying regions. Around 27,000 households will benefit.

A link with tourism.

KfW is financing the construction of a motorway from Zagreb to Split in Croatia. This will encourage tourism and help the economic development of the country.

A new network for Slovenia.

KfW is cofinancing the third mobile phone network in Slovenia.

KfW Deals with a Buried Treasure.

The old German Democratic Republic no longer exists as a state, but its currency is much more resilient. It disappeared from public view with the currency union, but it lived on in the dark – in two sandstone tunnels in an underground site at Halberstadt, where around 3,000 tonnes of GDR banknotes were mixed with sand and deposited behind concrete walls two metres thick. Then they were left to rot. But contrary to all

KFW IN JUNE 2002.

A historic finale.

KfW completes the final destruction of the GDR banknotes stored in the underground site at Halberstadt.

Help for Afghani women.

KfW staff and Management Board donate EUR 17,000 to Terre des Femmes. The money will cofinance three training projects for women in Afghanistan.

KfW supports the municipalities.

At a conference for representatives of the municipalities KfW shows new ways to finance municipal investment.

expectations the notes did not rot. So at the end of March 2002 KfW, as the successor to the former GDR state bank, began the final destruction of the hoard, and by June 2002 altogether 298 containers of GDR paper money had rolled to the waste incineration plant at BKB-Buschhaus. The last banknote burned, and with the end of the East German Mark the rumours of the buried treasure in Halberstadt also evaporated.

The Romanian economy strengthened.

As part of the preparations for Romania to join the EU KfW and Banca Romaneasca sign a contract to promote the SME sector in Romania.

The Africa Prize for 2002 awarded.

In KfW's Berlin office Olara A. Otunnu, UN Commissioner for Children in War Situations, receives the award from the German Africa Foundation.

Ferries for Denmark.

KfW is financing 5 Ro-Ro ferries built by Flensburger Schiffsbaugesellschaft (FSG) for the Danish DFDS/Tor Line.

Builders are wiser with KfW.



"We are going to build!" Easier said than done. Very many questions have to be answered before the first spade can go in. Most important is finance. With KfW's new online service "Housing, Construction and Modernization, Energy Conservation" would-be builders quickly find the right answer. Under www.kfw.de the bank provides extensive information on every aspect of financing. The main items are the KfW promotional

KFW IN JULY 2002.

More service for builders.

The new KfW online service "Housing, Construction and Modernization, Energy Conservation" answers questions on financing home ownership.

A clear rise in commitments.

KfW committed around EUR 11 billion in the first half-year for domestic investment promotion. That is 20% more than in the same period of the previous year.

Successful environmental promotion.

KfW's 100,000 Roofs Solar Power Programme exceeds the 150 megawatt threshold. That is electricity for 40,000 households.



programmes with favourable interest rates. The interactive consultant on promotion helps customers select the best promotional programme for them. Detailed examples of promotion make it easier to decide. A whole range of tips are also available on building to suit the environment and modernization. The offer is rounded off with addresses for personal consultancy, a newsletter and the well-proven KfW repayments calculator.

The 1,000th KfW low-energy house.

KfW, a pioneer in promoting energy-saving houses, has committed its 1,000th loan for a low-energy house.

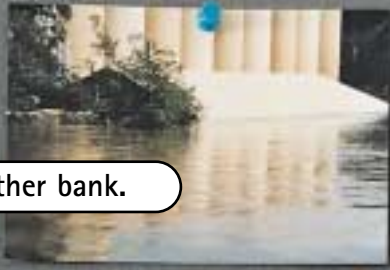
Global loan for Commerzbank.

Commerzbank agrees a global loan with KfW; this will enable it to serve the SME sector better than hitherto with customized loans.

World Population Day.

Over-population is one of the major problems of the world today. KfW is promoting family planning projects in developing countries.

KfW is not a fine weather bank.



First came the rain, then the flood, and within hours Saxony was a disaster zone. The worst floods for a century devastated towns and villages, robbing thousands of all their possessions and destroying the reconstruction work of a whole decade. Now the waters have receded and "Reconstruction East" starts for the second time. KfW responded immediately to the disaster, providing loans at special conditions for those affected

KfW IN AUGUST 2002.

Rapid help after the floods.

After the catastrophic floods KfW set up special loan programmes for the people, companies and municipalities affected.

Energy supply with a future.

KfW gives its 1,000th commitment under the Programme to Promote Renewable Energies, which is used to market plant for the use of renewable energy sources.

400,000 dreams come true.

Since the end of 1996 the KfW Home Ownership Programme has enabled 400,000 home owners to build or buy their own houses or apartments.



directly after the catastrophe. The KfW Special Flood Relief Programme, for example, offers assistance to companies like the Sachsenmalz malt factory in Heidenau to deal with the damage and start producing again quickly. KfW has also made a direct donation to assist the reconstruction of the town of Grimma.

Development to suit the environment.

KfW is putting into practice the objectives of the UN World Summit on Sustained Development held in Johannesburg in its Financial Cooperation with developing countries.

Debt relief for Bolivia.

Germany grants Bolivia relief on debts on Financial Cooperation projects. The funds released are used for projects to alleviate poverty.

Securing energy supplies.

KfW is financing the repairs to the long-distance heating supplies in the three biggest cities of Serbia and the electricity supply equipment in Kosovo.

KfW gets Containers Moving.



Not a soul in sight in the huge yard. The countless containers are unloaded from the ships as if by unseen spirits, set down and then reloaded on to road or rail transport. It is almost all done by computer. After two years construction work the first stage of the Altenwerder container terminal in Hamburg harbour is completed. Nine hundred metres of quayside are ready. Seven semi-automatic container bridges, supported by

KfW IN SEPTEMBER 2002.

The first construction stage completed.

After two years' construction work the Altenwerder container terminal, which KfW is co-financing, starts operating.

Meeting the Millenium Targets.

The second anniversary of the Millenium Declaration. KfW is supporting the Federal Government in its action programme to reduce poverty and hunger.

www.kfw.de with a new look.

KfW's Internet website appears in a new design. It offers more up-to-date information, faster access to KfW's fields of business and interactive elements.



twenty-two fully automatic gantry cranes and thirty-five remote control container trucks that need no drivers handle 1.1 million TEU a year. The final stage of the container terminal is already in full swing. When it is finished the quayside will have four moorings and a total length of 1.4 km. Nearly 2 million TEU a year can then be handled by thirteen computer-operated container bridges.

Assistance for flood victims.


KfW offers clients affected by the floods comprehensive rescheduling of interest and redemption payments.

The Climate Protection Fund introduced.

With its planned Climate Protection Fund KfW is supporting the implementation of the Kyoto Protocol. Emission trading makes an important contribution to climate protection.

KfW's presence in Ankara increased.

Turkey is a major focus of German development cooperation. KfW is supporting environmentally compatible municipal development there and measures to create incomes.

A photograph of a man in a dark blue shirt standing in a large industrial workshop. He is positioned behind a long, complex piece of machinery, possibly a lathe or a similar metalworking machine. The workshop has a high ceiling with industrial lighting and various tools and equipment visible in the background. The man is looking towards the camera.

KfW provides capital for work.

Josef Nieora was unemployed for more than a year. He is the first unemployed person to benefit from KfW's promotional programme "Capital for Work". Frank Rudow, his new boss and Managing Director of RS Drehtechnik AG in Mönchweiler in Baden, put in an application for a promotional loan only two weeks after the launch of the new programme. It was approved by KfW just four days later. The

KFW IN OCTOBER 2002.

Reducing unemployment.

The new KfW promotional programme "Capital for Work" makes it easier for small and medium-sized firms to take on unemployed workers.

Music for Brazil's Baroque.

KfW is sponsoring the project "Barroco na Bahia" to preserve Baroque buildings in the old city of Salvador, Bahia.

1,800 "passive houses" promoted.

KfW gives its 1,800th commitment for a "passive house". The bank has been promoting this type of housing since 1999, helping innovative and ecological building.



programme is the first in the German promotional scene to offer conditions differentiated according to risk. This enables companies that had difficulties in borrowing before to obtain loans. But they do not have to pay more for the loan than is appropriate for their individual financial standing.

10 years of the TRANSFORM Programme.

Under a mandate from the Federal Government KfW is supporting the reform countries in Central and Eastern Europe in the transition process.

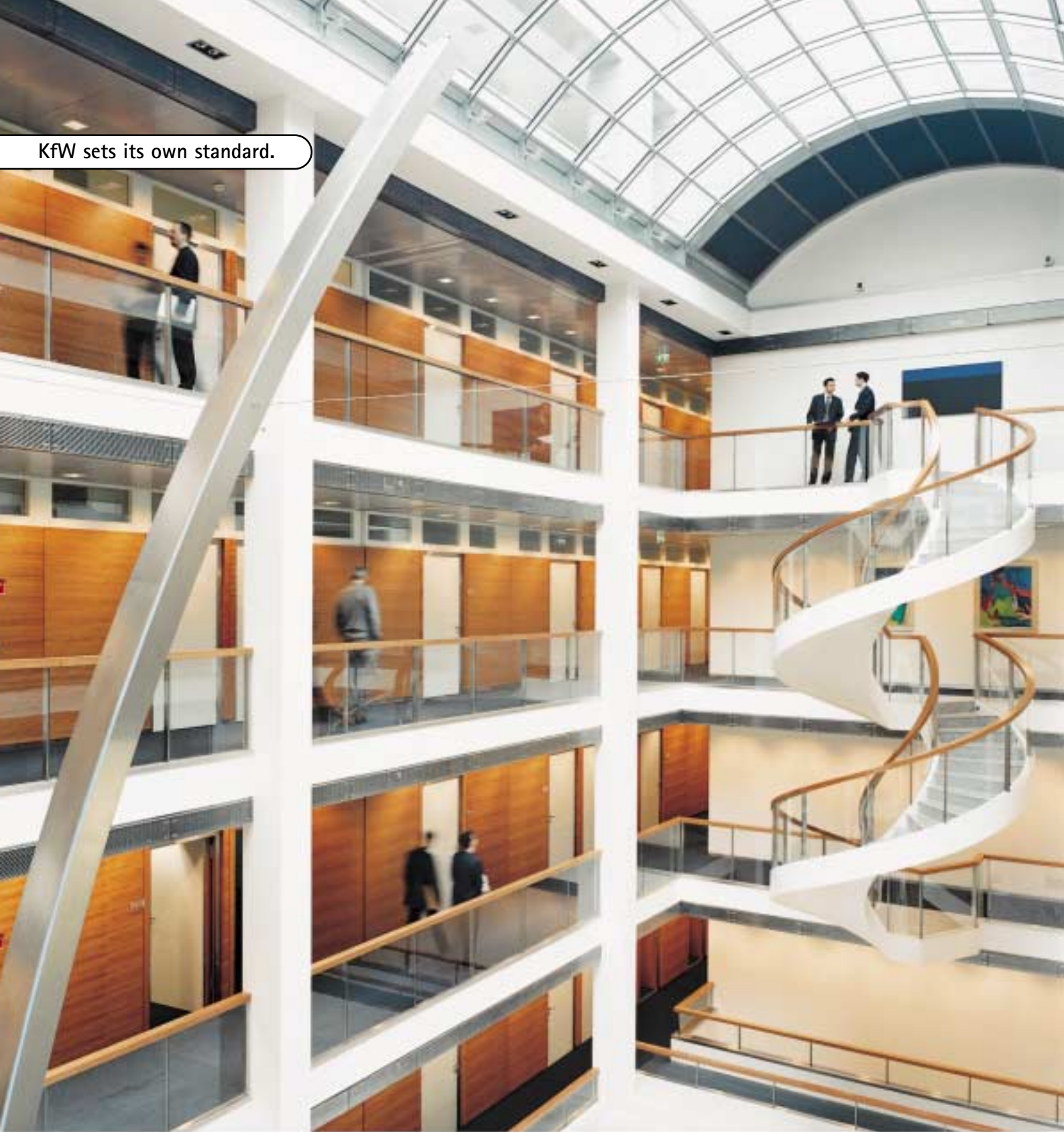
The Developing Countries Prize awarded.

KfW and the Justus Liebig University in Gießen give awards for research into the role of minorities in the development process.

An environmentally-friendly tanker.

The multi-purpose tanker "Wappen von Hamburg" cofinanced by KfW is delivered. It meets the strictest requirements for environmental protection.

KfW sets its own standard.



As a promotional bank KfW is committed to the principle of sustainability. It supports promising projects that will spare resources, increase energy efficiency and protect the environment. Understandably, then, the bank has set new standards in environmentally-friendly building with its new premises, the East Arcade, in Frankfurt. Innovative solutions have reduced the usual primary energy needs by 70%. Water consumption is down

KfW IN NOVEMBER 2002.

The East Arcade sets new standards.

KfW moves into its new office building in Frankfurt. The very latest ecological and energy-saving technologies have been used in the building.

A Romantic engagement.

KfW sponsors the restoration of the Petrihaus in Frankfurt and the establishment of a Brentano Museum to provide information on the Romantic period.

Solar power boom in Germany.

KfW has granted loans totalling EUR 1 billion under its 100,000 Roofs Solar Power Programme. Germany is the leader in promoting solar power plant.



by more than 80%. The key of the entire concept is ventilation upwards through the atrium. The natural upward movement of warm air is utilized and an air-conditioning plant is not needed. So fresh air can circulate through the building all the time. The design of the workplaces also meets all the modern requirements for transparency, communication and flexibility.

An innovative transaction.

DG HYP, DZ Bank and KfW put the first multi-seller transaction to securitize private housing construction loans on the capital market under the PROVIDE Programme.

More scope for Commerzbank.

Commerzbank and KfW conclude the first joint securitization of risks on SME loans under the PROVIDE Programme.

SE Europe's future.

At the Berlin symposium on the development of the financial sector in Southeast Europe KfW presents new approaches to promoting the financial sector in this region.

KfW merges with DtA.



This is how quickly KfW and DtA can act together. Immediately after the announcement of the merger of the two promotional banks in the coalition agreement of the new Federal Government the timetable for the merger was drawn up and the process of linking up the two banks launched at full strength. DtA will join the KfW Group, and the merger of the two banks will make the promotion of small and medium-sized

KFW IN DECEMBER 2002.

The SME Bank is created.

KfW and DtA combine their SME promotion in the new "Mittelstandsbank".

Two years of the Berlin Salon.

The Berlin Salon is a firm fixture in the Berlin cultural scene. It offers a forum for controversial discussion between public figures.

Prize-winning energy projects.

KfW and Eurosolar award the European Solar Prize for 2002. The prize is given to promising international projects for the use of renewable energies.



firms and start-up businesses even more transparent, effective and efficient. In order to strengthen SME promotion in Germany permanently the two institutes have combined their promotional loan programmes in a new platform, "Die Mittelstandsbank" (the SME Bank). In future this new promotional organ will be responsible within the KfW Group for every aspect of the promotion of start-up businesses and SMEs.

A successful generation change.

KfW promotes corporate succession. The funds are available for the purchase of companies and the acquisition of equity participations.

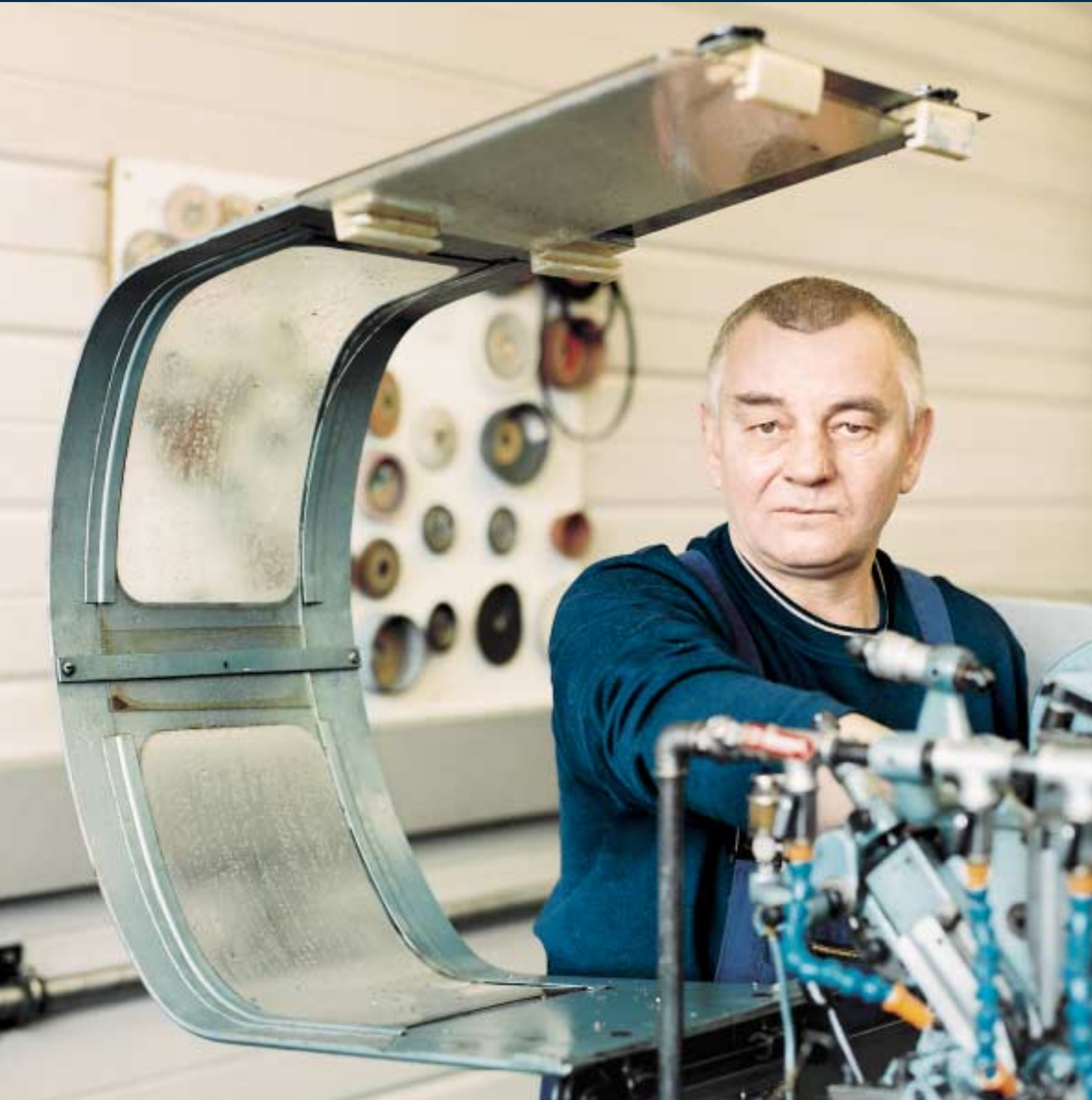
Debt relief for Indonesia.

KfW and Indonesia sign a debt swap agreement. Fifty percent of the debt relief is to be invested i.a. for projects to reduce poverty and protect resources.

Methanol production reduces CO₂.

KfW is promoting the construction of the biggest methanol production plant in the world in Trinidad. It processes CO₂ that is released during other chemical processes.

INVESTMENT FINANCE.



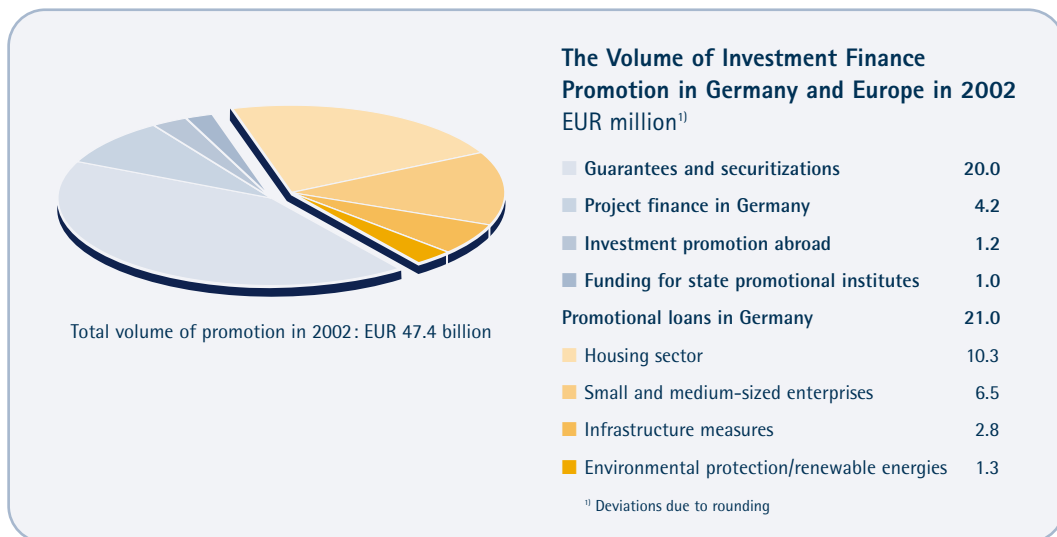
KFW MORE THAN DOUBLES ITS VOLUME OF PROMOTION.

KFW INVESTMENT PROMOTION IN GERMANY AND EUROPE.

KfW's volume of promotion for the German and European economies amounted to EUR 47.4 billion in 2002, which was around 56% above the previous year's level. As in former years, investment loans (including guarantees) accounted for the biggest share of the volume, with commitments totalling EUR 27.4 billion. Securitizations and domestic guarantees were almost at a comparable level at more than EUR 20 billion. With an almost fourfold increase in volume they also had the biggest growth rate among the

promotional instruments. Investment loans to other European countries contributed a further EUR 1.2 billion to the total volume of promotion.

31% of the loans to promote investment in Germany went to small and medium-sized enterprises. The housing sector accounted for around half of the commitments. The share of infrastructure promotion programmes remained almost constant at 13%. Commitments in environmental protection/renewable energies fell slightly, and accounted for over 6%.



Promotion of the German and European Economies¹⁾

Commitments in EUR million

Programme	2001	2002	Purpose
I. Investment promotion in Germany	28,678.5	46,202.9	
1. Promotional loans in Germany	19,387.9	20,979.5	
a) Small and Medium-Sized Firms	6,629.4	6,481.8	
■ Small and Medium-Sized Enterprises	5,108.64	4,048.7	SME finance in Germany
■ KfW Capital for Work Programme	–	21.8	Support to reduce unemployment
■ KfW Acquisition Finance	106.3	180.6	Finance for corporate takeovers (test phase)
■ KfW Special Flood Relief Programme	–	8.9	Expenditure to deal with damage caused by the flood in August 2002
■ KfW Participation Fund (East)	24.0	3.3	Participations in enterprises in the eastern federal states
■ KfW Venture Capital Programme (finance for participation funds)	162.7	90.6	Participations in enterprises through venture capital funds financed by KfW
■ KfW Private Equity Programme	–	2.0	Finance for corporate takeovers (test phase)
■ KfW/BMWA Technology Participations Programme	74.7	39.0	Participations in small technology-based firms
■ Global Loan Programme for Trade and Industry	–	1,300.0	Global loans to commercial banks to finance small and medium-sized firms
■ ERP Regional Promotion Programme	528.3	325.3	Investment in the areas receiving aid under the "Joint Task for the Improvement of the Regional Economic Structure"
■ ERP Innovation Programme	448.6	262.1	Market-oriented research and development and the marketing of innovations
■ ERP Participation Programme	122.5	133.7	Participations in enterprises by private equity investment companies
■ ERP Loans to Guarantee Banks	53.6	65.8	Funds for guarantee banks
b) Environmental Protection/Renewable Energies	1,355.1	1,318.3	
■ KfW Environmental Protection Programme	802.7	835.6	Environmental and climate protection projects by trade and industry
■ KfW 100,000 Roofs Solar Power Programme	424.6	396.0	Photovoltaic plants
■ KfW Special Programme Photovoltaic Plants	4.1	–	Photovoltaic plants
■ KfW Programme to Promote Renewable Energies	123.7	86.7	Measures for the use of renewable energies
c) Housing	8,431.5	10,346.2	
■ KfW Housing Modernization Programme I	12.9	5.3	Modernization and renovation of housing in the eastern federal states
■ KfW Housing Modernization Programme II	737.1	1,072.1	Modernization and renovation of housing in the eastern federal states
■ KfW Programme to Promote Home Ownership	6,271.4	6,378.8	Construction and purchase of owner-occupied housing
■ KfW Special Flood Relief Programme	–	15.0	Expenditure to deal with damage to building substance caused by the floods

¹⁾ Differences in sums due to rounding

(cont.)

Programme	2001	2002	Purpose
■ KfW CO ₂ Reduction Programme	880.3	711.0	Investment to reduce CO ₂ emissions and save energy in residential buildings
■ KfW CO ₂ Building Rehabilitation Programme	529.7	754.3	Package measures to reduce CO ₂ emissions in old residential buildings
■ Global Loan Programme for the Housing Sector	-	1,409.8	Global loans to commercial banks to finance home ownership
d) Municipal Infrastructure	2,796.5	2,797.7	
■ KfW Infrastructure Programme	2,792.7	2,795.7	Municipal Infrastructure measures
■ Sewage Treatment Saxony-Anhalt	3.8	2.0	Sewage treatment projects in Saxony-Anhalt
e) Other Structural Measures	175.4	35.5	
■ KfW Rescheduling Programme	0.3	0.0	Old claims due from the state budget of the former GDR
■ Special loans	175.0	35.4	Investment
■ KfW Special Programme for the Old City of Quedlinburg	0.1	-	Renovating buildings in the old city of Quedlinburg
Total promotional lending in Germany	19,387.9	20,979.5	
Of which:			
■ KfW programmes	18,234.9	20,192.6	
■ ERP programmes	1,153.0	786.9	
<i>Memo item: Total promotion in the eastern federal states</i>	<i>3,478.1</i>	<i>3,468.3</i>	
2. Guarantees and Securitizations	5,158.4	20,047.1	
■ KfW Venture capital Programme (Guarantees)	8.4	3.9	Securing participations by private equity investment companies
■ Securitizations	5,150.0	20,043.3	
- Promise	2,650.0	7,775.6	Securitization of promotional loans to trade and industry
- Provide	2,500.0	12,267.7	Securitization of promotional loans to the housing sector
3. Project Finance in Germany	4,132.2	4,226.3	I.a. energy and transport projects
■ Of which: Guarantees	589.5	422.6	I.a. projects in the transport sector
4. Funding State Promotional Institutes	-	950.0	Global loans to fund state promotional institutes
II. Investment Promotion Abroad	1,764.2	1,155.2	
■ Small and Medium-Sized Enterprises (Abroad)	156.1	60.0	SME finance abroad
■ KfW Environmental Programme (Abroad)	127.5	35.0	Environmental and climate protection projects by trade and industry abroad
■ Global Loans (Europe)	1,480.6	1,060.2	Global loans to promotional and commercial banks in Europe
Total investment finance in Germany and Europe	30,442.7	47,358.1	

A SHORTAGE OF EQUITY CAPITAL AND NEW APPROACHES IN PROMOTION.

On average small and medium-sized firms in Germany have a lower equity capital ratio than comparable firms in other European countries. That has not mattered greatly in the past. Owing to the predominant conditions here – companies on principle work with one bank, the tax system, the accounting regulations and so on – a low level of equity capital has always been sufficient for many firms. Problems only arose in individual segments, mainly for new businesses, young and technology-based firms in forward-looking branches and innovative, rapidly growing firms.

The changing conditions in the financial markets are now putting more pressure on small and medium-sized firms to strengthen their equity position.

In the past the equity capital ratio has almost always been increased with retained earnings, and that will remain the most important practice in future as well. However, building up equity capital from retained earnings is a slow process, and in the present economic situation many companies are finding it difficult.

KfW therefore intends to offer even greater support to small and medium-sized firms to improve their equity capital position. One example is with the new programme “Capital for Work”, which was launched on November 1, 2002. The programme offers an incentive to strongly growing companies to create new jobs and take on unemployed workers. A company can receive up to EUR 100,000 for up to ten years for a newly appointed worker who was previously unemployed or facing job loss. The funds are disbursed in two equal tranches, one of borrowed funds and one subsidiary tranche. The subsidiary tranche is

particularly attractive, for it gives the company that is creating jobs funds similar to equity capital. This permanently improves its financing structure and at the same time widens its scope for further borrowing. The two together facilitate investment, stimulate growth and create more jobs.

In addition, KfW uses programme approaches which enable the private participation capital market to be opened up more to the broad SME sector. Until now this market has been very largely limited to new businesses and young, innovative firms in growth branches, and to larger buy-out transactions. This effectively excludes the broad mass of German SMEs from the participation market. KfW is currently running pilot projects to test the use of low-cost instruments and products that are designed for the specific needs of the broad mass of SMEs. The aim is to establish a new, self-sustaining market segment. Should the approach prove successful it will be developed into a broad programme to strengthen the equity base of small and medium-sized firms.

KfW is also playing an active part in financing corporate takeovers in the SME sector. As well as the “classical” KfW Programme for Small and Medium-Sized Enterprises the bank offers the KfW Acquisition Finance Programme. Moreover, it has created a new equity capital instrument in the Private Equity Programme, which is now in the pilot phase. Altogether these programmes enable individual financing concepts to be realized to settle successor issues through MBO/MBI transactions, spin-offs from large companies or mergers of SMEs.

SME PROMOTION IN GERMANY.

A CONSTANT VOLUME OF PROMOTION STRENGTHENS THE SME SECTOR.

Despite the difficult economic situation and the marked decline in investment the volume of commitments to promote the SME sector remained almost constant at EUR 6.5 billion. This must be regarded as an important contribution to strengthening these firms.

KfW's promotion again made a marked contribution to strengthening the labour market during the past year. Promotional loans for small and medium-sized firms (without global loans) stimulated investment of more than EUR 10.1 billion last year. This enabled around 390,000 jobs to be made more competitive and less vulnerable to crises and helped to create just under 32,000 new jobs. Another 68,000 jobs were secured through the demand effects of the

promotion in trade and industry, the housing sector and municipal infrastructure, particularly in the construction industry.

Around 25,000 loans were given under the programmes to promote small and medium-sized firms. A remarkably high percentage were "micro-loans", that is, about 31% of all the loan commitments to SMEs were for less than EUR 50,000. More than 13% of the loans were actually for less than EUR 25,000. Small firms employing fewer than ten people benefited particularly from these. As these firms often create an over-proportional number of jobs and are particularly innovative, this has a positive effect on structural change.

Programmes for Small and Medium-Sized Firms in 2002¹⁾

Programmes	Loan commitments		Volume of investment promoted EUR million	Number of jobs in firms promoted	
	Number	EUR million		Existing	New
ERP Regional Promotion Programme	1,975	325.3	779	34,600	2,550
ERP Innovation Programme	181	262.1	326	38,700	550
KfW Programme for Small and Medium-Sized Enterprises	21,942	4,048.8	7,522	290,100	25,850
Other programmes for small and medium-sized firms	938	545.7	1,497	28,200	2,800
All programmes for small and medium-sized firms	25,036	5,181.9	10,124	391,600	31,750

¹⁾ Without investment abroad and global loans. For projects funded under more than one programme investment and jobs are only counted once.

**THE KfW PROGRAMME FOR SMALL AND MEDIUM-SIZED ENTERPRISES
– AN IMPORTANT ELEMENT IN SME PROMOTION.**

With commitments totalling EUR 4 billion the KfW Programme for Small and Medium-Sized Enterprises did not quite achieve the previous year's volume. In view of the strongly declining propensity to invest among companies, however, the volume of promotion achieved is a successful result and evidence of the great importance of the SME programme.

MORE FLEXIBLE LOAN TERMS WITH GLOBAL LOANS.

The introduction of the global loan meets the desire of companies and banks for more flexible terms and conditions in promotion, e.g. cash-flow congruent finance. Hence, global loans to fund SME loans at favourable conditions now supplement the classical promotion programmes. They are given by KfW to banks, who change them into customized individual loans which they hand on to borrowers at favourable conditions. This opens up new financing possibilities for the companies and at the same time makes lending to SMEs more interesting again for the banks. Loan commitments by KfW to small and medium-sized firms totalled EUR 6.5 billion in 2002, of which the new promotional instrument of the global loan accounted for EUR 1.3 billion. It thus made a major contribution to the positive result.

“CAPITAL FOR WORK” SUCCESSFULLY LAUNCHED.

The “Capital for Work” Programme was successfully launched on November 1, 2002. The inflow of orders is rising continually. The funds for the programme are given to small and medium-sized firms that take on persons who were unemployed or whose jobs were under threat. The funds are given in two equal tranches, one of borrowed funds and a subsidiary tranche of funds comparable to equity capital. This improves the financing structure of the company. The conditions for the subsidiary tranche are the innovative core of the programme. The interest rate is fixed on the basis of a company rating. The better the company's standing the easier are the terms. Even more important, however, is that by fixing prices to reflect risk and by taking on the risk KfW is also giving companies of lower standing access to urgently needed funds which they would otherwise not be able to obtain from their own banks.

THE ERP PROGRAMMES.

Under the ERP programmes which KfW handles loans totalling EUR 786.9 million were provided. The most important of these programmes by volume, at EUR 325 million, is the ERP Regional Promotion Programme. It promotes investment

to improve the regional economic structure in the areas receiving promotion under the Joint Task. Other ERP programmes promote innovation and provide venture capital finance for companies.

INNOVATION AND PARTICIPATION FINANCE AGAIN ON CONSOLIDATION COURSE.

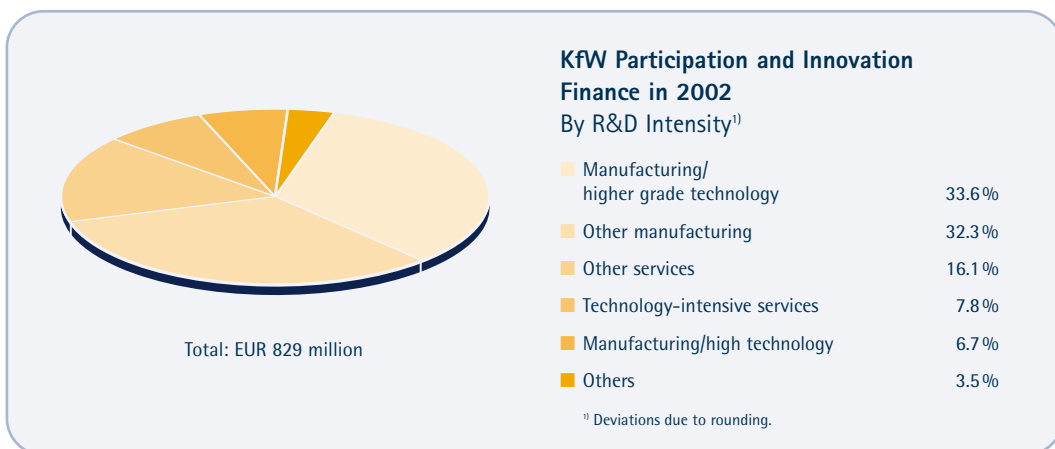
Innovations have particularly positive effects on the economy. They are the driving force of structural change, for they lead to internationally competitive products and services. Innovative companies lay the foundations for future growth and they create skilled jobs that will be secure in future.

Small and medium-sized firms in particular have a big potential to advance technical progress, but they cannot always exploit this, because they suffer disadvantages in obtaining finance owing to their size. KfW's promotion compensates for these disadvantages and so opens the way to more innovation.

Promoting equity participation in companies is a particular concern for KfW. With the

help of these funds small and medium-sized firms can increase their equity capital ratio. That is necessary for many of them in view of the changes in the financial markets. KfW is thus making its contribution to closing the equity capital gap in Germany (cf. p. 44).

In 2002 the market for participations was again on consolidation course. Demand for innovation and participation finance from KfW declined, in analogy to the market trend, and commitments fell from the previous year to EUR 0.5 billion. The fall was spread largely evenly across all the innovation and participation programmes.



INVESTMENT FINANCE IN EUROPE.

CLOSE COOPERATION WITH THE EUROPEAN UNION.

European promotional funds ought to be more accessible to German SMEs. Hence, KfW is cooperating closely with the European Investment Bank (EIB), the European Investment Fund (EIF), the Council of Europe Development Bank (CEB) and the European Commission. For example, KfW will use loans from the CEB at favourable interest rates to fund its flood damage programme.

KfW is continuing to incorporate European initiatives, like "Growth and the Environment" or "Growth and Employment", in its programmes. This brings the European promotional measures to the German investor in an efficient and pro-

ven way. At the same time KfW can offer better conditions and a wider range of promotion.

The exchange of experience within Europe on "best practice" is growing in importance. One example of this is the use of the European Commission's Structural Fund for regional development. For this purpose KfW has initiated a working group of representatives of German state promotional institutes. It is to make the experience gained by other European countries in using innovative financing instruments for Structural Fund promotion available to German SMEs as well.

EXPANDING EXISTING NETWORKS.

It is a central concern of the EU to facilitate access to finance for small and medium-sized firms, and for this purpose EU institutions make use of the know-how in member states. The Network of European Financial Institutions for SMEs (NEFI) has become established as the contact centre with international experience. It was set up by KfW in 1999 in conjunction with promotional institutes in other EU member states.

A major focus in the Network in 2002 was discussion over the consequences of Basel II for

the SME sector. The Network also drew up statements on the European Charter for SMEs and the planned Green Paper on entrepreneurship, and on a comparative study of micro-loan programmes in individual EU member states. In spring 2002 the partner institutes, now numbering eight from seven countries, signed a new cooperation agreement, the aim of which is to widen and deepen cooperation.

ECONOMIC PROMOTION IN WESTERN EUROPE EXPANDED.

KfW has been active in SME finance in several western European countries since 2000. It works with promotional banks and commercial banks that have specialized in SME finance in these countries, providing them with global loans to fund their own SME programmes and loans.

Since mid-2002 small municipal infrastructure projects and housing construction projects can also be financed with KfW global loans. As well as SMEs private individuals and municipal

investors in western Europe can also apply for attractive financing to realize their projects. In this way KfW is making a contribution to expanding the infrastructure and to harmonizing the European standards for housing construction and environmental protection.

The volume of commitments for global loans to western European partner banks was increased in 2002 by EUR 1 billion to EUR 3.3 billion.

Global Loans to Western European Partner Banks

Credit lines in EUR million as per December 12, 2002

Denmark	334
Finland	250
France	200
Great Britain	410
Ireland	150
Italy	700
Netherlands	150
Austria	700
Portugal	300
Spain	90
Total	3,284

INVESTMENT FINANCE IN CENTRAL AND EASTERN EUROPE.

KfW is now funding promotional programmes for local promotional banks and commercial banks in 13 countries of Central and Eastern Europe with a volume of lending of more than EUR 610 million. These loan programmes are mainly designed to support SMEs, but they also meet the local need for finance for housing and infrastructure projects and environmental protection measures.

Funding for Promotional Programmes of Promotional and Commercial Banks in Central and Eastern European States
Credit lines in EUR million

Bosnia-Herzegovina	7.7
Estonia	45.5
Croatia	131.2
Latvia	43
Lithuania	30.1
Macedonia	15
Poland	90
Romania	30.6
Slovakia	65.6
Slovenia	45
Czech Republic	15
Ukraine	15.3
Hungary	76.2
Total	610.2

THE EU SME FINANCING FACILITY.

The Programme to Promote SMEs in EU Candidate Countries in Central and Eastern Europe, that was launched at the end of 2000 with the European Council Development Bank (CEB) and the European Commission, was successfully continued in 2002. More funds were provided for the programme in spring 2002. Under the programme loans from KfW and CEB totalling EUR 263 million are supplemented by grants from the European Commission totalling EUR 51 million. The aim of the programme is to strengthen lending to SMEs by local banks, which

receive further EU grants for their commitment to SME financing as well as technical support. The grants can be used to cover greater risks on loans and higher expenditure on handling applications.

By the end of 2002 KfW had signed contracts with partner banks in all ten EU candidate countries in Eastern Europe and Turkey. These covered a volume of lending totalling EUR 196 million with supplementary grants from the EU budget of EUR 33.2 million.

PROMOTION OF OWNER-OCCUPIED HOUSING, CO₂ REDUCTION IN RESIDENTIAL BUILDINGS AND HOUSING MODERNIZATION.

VOLUME OF PROMOTION MORE THAN DOUBLED.

The volume of promotion for the housing sector more than doubled from the previous year in 2002 to reach a total of EUR 22.6 billion. The acquisition of housing, the modernization of the existing housing stock in eastern Germany and energy-saving measures in residential buildings were promoted. The instruments were securitization, global and programme loans.

The securitization of residential mortgage loans expanded very strongly. With this high volume of securitization KfW helped to create a liquid secondary market for risks on German housing loans. In the KfW securitization programme PROVIDE residential mortgage loans totalling EUR 12.3 billion were securitized in 2002 alone – including EUR 0.6 billion in the first multi-seller transaction. The risks on various portfolios of residential mortgage loans are combined and offered to institutional investors in one transaction. The securitization structure

developed for this is to be the prototype for follow-up transactions. It enables smaller handling banks as well to utilize KfW's securitization platforms, for they in particular often bear risks that are regionally strongly concentrated, and do not have the necessary volume of lending for securitization. The KfW PROVIDE securitization programme enables them to improve their risk position.

The global loans also had a good start. In the very first year of their establishment in the market two global loans totalling EUR 1.4 billion were committed to banks to promote owner-occupied housing. In global loans the banks receive funds from KfW at the promotional bank's favourable conditions. The banks hand these funding advantages on to private builders of their own homes in the form of housing loans at favourable interest rates.

118,000 OWNER-OCCUPIED HOMES AND APARTMENTS CO-FINANCED.

In 2002 as well many families were able to realize their dream of owning their own four walls. 118,000 of them benefited from KfW finance at favourable interest rates. Under its Programme to Promote Home Ownership KfW supported the

construction or purchase of owner-occupied houses and apartments with loans totalling EUR 6.4 billion. Despite the decline in the construction of owner-occupied housing the commitments are thus above the previous year's level.

PROMOTION OF HOUSING MODERNIZATION IN EASTERN GERMANY.

The KfW Housing Modernization Programme closed at the end of 2002. It had been the biggest loan programme since KfW began operating and its closure brought to an end altogether thirteen years of intensive and successful promotion and modernization to renovate housing in eastern Germany. Between 1990 and 2002 loans totalling EUR 42 billion – spread over around 700,000 individual loans – helped to modernize and repair about four million homes in the eastern states. Last year alone a volume of lending of EUR 1.1 billion was committed.

In view of the progress achieved from 2000 the programme was focussed on old and large panel buildings dating from before 1949 and buildings of nine or more storeys erected after

1948. In 2002 what is known as the reduction variant was introduced. It offered promotional funding for the reduction of empty residential building that would never be needed again, or sections of residential buildings, as part of urban renewal. Under this section of the programme KfW committed a total of around EUR 8 million for about 50 loans.

This has certainly not completed the process of urban renewal, and there is still a great need for investment in the eastern German inner cities. The subject is also of growing importance in western Germany. Throughout Germany modernization of existing residential buildings can still be co-financed under the KfW CO₂ programmes.

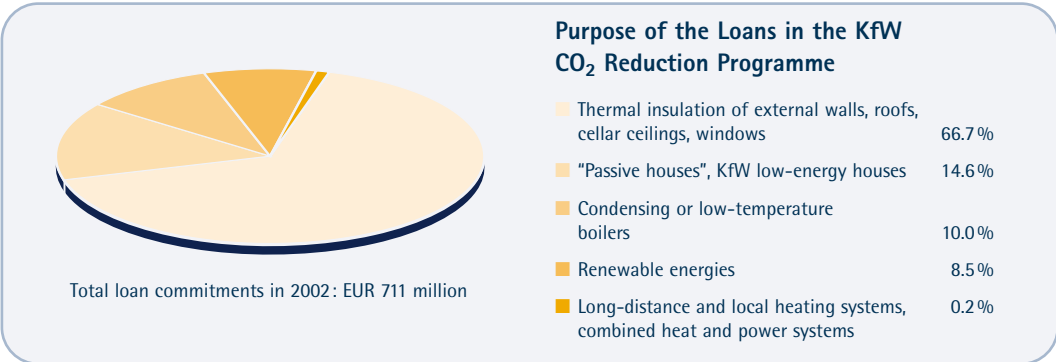
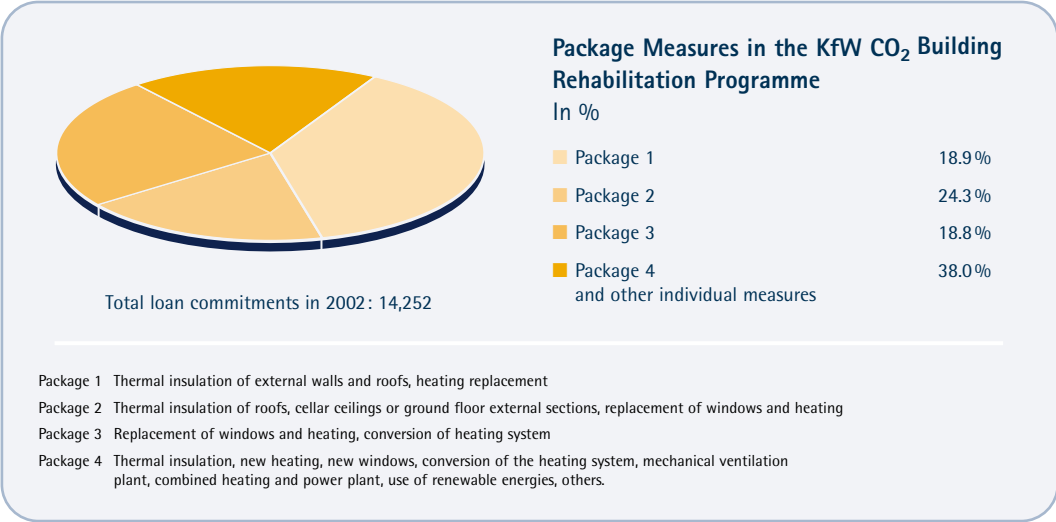
CO₂ BUILDING REHABILITATION PROGRAMME MEETS WITH BIG RESPONSE.

The loan commitments under the KfW CO₂ Reduction Programme and the CO₂ Building Rehabilitation Programme amounted to a total of EUR 1.5 billion in 2002. The funds cofinanced thermal insulation and heating modernization in more than 100,000 apartments and the construction of 2,860 KfW Energy-Saving Houses.

The CO₂ Building Rehabilitation Programme, which was introduced in January 2001, is part of the Federal Government's National Climate Protection Programme. Its aim is to achieve a reduction of at least 40 kg of carbon dioxide per square metre and year through investment. The programme clearly gathered momentum during 2002 and at EUR 750 million commitments

were more than 40% above the previous year's level. The strong and noticeably higher demand shows that promoting climate protection measures with loans at favourable interest rates is meeting with a big response from both private individuals and companies.

The KfW housing loans offer considerable advantages over grants. These include big savings on the financing costs (no preliminary financing or supplementary financing costs), simple application procedures through banks and savings banks, rapid access to the funds at the very start of the project and financial planning security for investors.



PROMOTING CLIMATE AND ENVIRONMENTAL PROTECTION.

All economic activity entails the use of natural resources and environmental commodities like air, water and soil, and sustained care is required to preserve them. Firstly, the ability of the environment to absorb harmful substances must not be overstrained. Secondly, the consumption of raw materials must be so arranged that coming generations are not thereby restricted in their

development. Above all, the resources must be handled in harmony with the need to protect the climate. To achieve these aims KfW's environmental protection programmes in Germany and Europe tackle central issues. Chief among these are energy-saving in private households, promoting the use of renewable energies and industrial pollution control and climate protection.

CO₂ REDUCTION IN THE EXISTING BUILDING STOCK.

According to a report by the Jülich Research Centre the annual emission of CO₂ will be reduced by 3.5 million t by the end of 2005 as a result of the CO₂ Building Rehabilitation Programme and the CO₂ Reduction Programme. So these two programmes alone will contribute one tenth to the Federal Government's climate protection target for the housing sector.

However, the programmes are not only helping the environment, they are also noticeably stimulating the labour market. Each year up to 36,000 jobs are secured through the measures promoted. These positive effects on employment particularly benefit the building industry in the SME sector and the crafts. So they are another example of how ecology and economy can be harmonized.

A FURTHER ADVANCE IN THE MARKETING OF RENEWABLE ENERGY EQUIPMENT.

Under the 100,000 Roofs Solar Power Programme and the KfW Programme to Promote Renewable Energies private and SME investment in renewable energy systems is promoted. The aim of the programme is to market techniques in the renewable energies sector across a broad front. The costs of using renewable energy sources are to be brought down by realizing economies of scale in production. This will help to build up structures for sustainable energy supply.

The 100,000 Roofs Solar Power Programme has so far well fulfilled that aim. In 2002 more than 15,000 photovoltaic systems with a total capacity of 79 megawatt were promoted. This was above the previous year's figure of 76 megawatt. This result was achieved with a volume of lending that at EUR 396 million was nearly EUR 30 million lower than in the previous year.

This increase in the efficiency of the funding is at least partly due to a noticeable fall in the costs of photovoltaic systems.

The Programme to Promote Renewable Energies had a volume of lending of EUR 87 million in 2002. The funds promoted 99 solid biomass incineration plants, 52 hydropower plants and 174 biogas plants. The fall of EUR 37 million from the previous year's volume of lending was all in the biogas segment. By contrast, the volume of lending for hydropower plants and plants to burn solid biomass increased slightly.

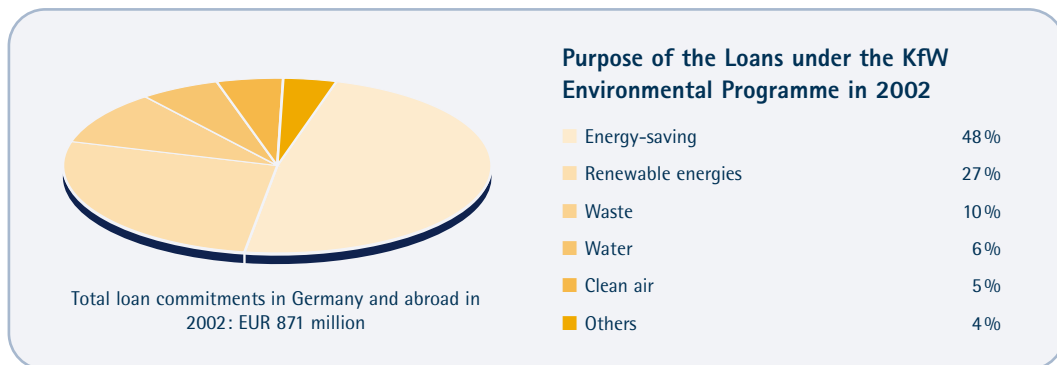
INDUSTRIAL POLLUTION CONTROL AND CLIMATE PROTECTION.

The KfW Environmental Protection Programme promotes industrial pollution control and climate protection investment with long-term loans at favourable interest rates. In the national variant the volume of promotion in 2002 was 6.4% above the previous year's level at EUR 836 million, while in the foreign variant, to promote measures by German investors abroad, the volume of commitments fell to EUR 35 million compared with EUR 127.1 million in the previous year.

Just under half the total volume of commitments was for integrated environmental measures for the energy-related modernization of production and logistics, and office and industrial buildings. The Environmental Protection

Programme is not only for climate protection, it also helps companies to lower their operating energy costs and so become more competitive.

With around one quarter of the volume of commitments the promotion of the commercial use of renewable energies – especially wind power and biomass (19 and 6 percentage points respectively) – comes in second place. Other important areas promoted are water industry projects – chiefly measures to save fresh water and avoid waste water – and investment in waste management. In the latter material recycling accounts for a much higher share than the alternative options, avoidance, treatment/burning and landfill sites.



THE INFRASTRUCTURE PROMOTION PROGRAMME.

For the expansion and modernization of the municipal infrastructure KfW committed loans totalling EUR 2.8 billion in 2002. This was the same level as in the previous year. In view of the strong decline in municipal investment it is a very noteworthy result.

KfW has further developed the range of products to promote the municipal infrastructure. In March 2002 it introduced a credit line variant in the KfW Infrastructure Programme, which gives municipalities greater flexibility in recourse to KfW loans. The new variant has already been widely utilized by municipalities.

PROJECT FINANCE IN GERMANY.

Domestic project finance rose over the previous year to EUR 4.2 billion. This underlines that the bank is still greatly in demand as financing partner for major projects within Germany. Our business area "Industry" made the greatest contribution to the volume of commitments at around EUR 1.3 billion. EUR 0.6 billion was provided for energy and environmental technology projects. Telecommunications projects accounted for EUR

0.1 billion and projects in the raw materials sector EUR 0.2 billion.

To finance purchases of ships by German shipping lines loans totalling EUR 0.6 billion were given. Aircraft finance contributed EUR 0.2 billion. The transport infrastructure sector accounted for EUR 0.9 billion, while airports and seaports received loans totalling EUR 0.3 billion.

SECTORAL AND REGIONAL DISTRIBUTION.

The corporate sector is still the most important recipient of KfW commitments with 57 % of the volume, but with the renewed rise in commitments under the housing programmes private households are gaining in importance. Their share grew from 40 % in 2001 to 43 %.

The sectoral distribution has not greatly changed from 2001. The shares of the retail trade and the construction industry have risen slightly, and the trend to the services society has continued unbroken. As in 2001, the services sector has gained ground over the producing sector in corporate finance.

The economic structures in the new and the old federal states are continuing to move more closely together, but some differences still persist. In eastern Germany, for example, manufacturing has a much smaller share of value creation than in western Germany. However, the eastern German manufacturing sector is more strongly represented in KfW commitments. The promotion is helping to ensure that the structural differences that are still evident are being reduced and the catching-up process in eastern Germany is progressing.

KfW Loan Commitments by Economic Sector and Industry 2001 und 2002

Commitments in EUR million and %

Economic sector/industry	All programmes ¹⁾		Programmes for SMEs	
	In EUR million		In % of volume of commitments	
	2001	2002 ²⁾	2002	2002
			East	West
Agriculture and forestry	136	128	1.6	1.0
Producing industries	4,353	3,745	43.2	42.3
■ Mining and non-metallic minerals extraction	39	37	0.3	0.5
■ Manufacturing	3,388	2,355	38.5	36.2
■ Pre-products	1,957	1,295	20.9	18.6
- Textiles (not incl. fashion wear), leather production	67	44	0.9	0.8
- Timber (not incl. furniture or wooden goods)	124	77	0.6	1.4
- Paper	118	89	1.2	0.8
- Printing, reproduction	227	93	0.8	1.5
- Chemicals (not incl. pharmaceuticals or soaps)	89	117	1.4	1.7
- Rubber and plastic goods	238	170	3.1	2.2
- Glass, ceramics	128	115	1.8	1.6
- Metals production	666	378	7.1	6.2
- Equipment to generate and supply electricity	68	27	0.8	0.3
- Electronics	116	46	0.8	0.7
- Other pre-products	116	139	2.4	1.4
■ Capital goods	863	550	10.4	9.7
- Steel and light metal construction	141	63	1.5	1.1
- Mechanical engineering	429	287	4.4	5.3
- Electrical engines, generators, transformers	90	28	0.3	0.4
- Medical, measuring, controlling and regulation equipment	110	95	2.0	1.5
- Vehicle construction	69	47	2.0	0.7
- Other capital goods	24	30	0.2	0.7
■ Durable consumer goods	79	63	1.2	1.2
- Optics, clocks and watches	29	14	0.2	0.3
- Other durable consumer goods	50	49	1.0	0.9
■ Consumer goods	489	447	6.0	6.7
- Food, tobacco	341	278	5.1	4.3
- Textiles (fashion wear), clothing, leather	31	65	0.2	0.9
- Chemicals (pharmaceuticals, soaps)	49	61	0.3	0.7
- Other consumer goods	68	43	0.4	0.8
■ Energy and water supply	586	1,012	0.9	0.4
- Energy, gas and long-distance heating supply	293	818	0.9	0.4
- Water supply	293	194	0.0	0.0

¹⁾ Not including project finance in Germany

²⁾ Not including loan commitments under global loans, for which figures are not yet available.

(cont.)

Economic sector/industry	All programmes ¹⁾		Programmes for SMEs	
	In EUR million		In % of volume of commitments	
	2001	2002 ²⁾	2002	2002
			East	West
■ Construction	340	341	3.5	5.1
- Civil engineering, building	101	133	1.5	1.5
- Building installations, other construction	239	208	2.0	3.6
Services	7,275	6,891	55.2	56.7
■ Trade	1,182	1,040	13.1	19.4
- Vehicle sales	342	260	4.8	4.7
- Wholesale trade	389	311	4.0	5.7
- Retail trade	451	469	4.3	9.0
■ Hotels and catering	234	202	3.7	3.8
■ Transport and communications	503	276	3.0	3.6
■ Property and housing	1,365	1,408	2.7	4.3
■ Services mainly for businesses	689	444	14.5	6.7
■ Health care	742	900	11.4	12.8
■ Environmental services	275	233	1.1	0.4
■ Other services	2,285	2,388	5.7	5.7
Private households	7,799	8,089	--	--
■ Non-specified	108	0	--	--
Total	19,671	18,853	100.0	100.0
<i>Memo item: Promotion of the crafts under the SME programmes</i>	<i>515</i>	<i>377</i>	<i>6.8</i>	<i>7.4</i>

¹⁾ Not including project finance in Germany²⁾ Not including loan commitments under global loans, for which figures are not yet available.

PROMOTION OF THE CRAFTS AND THE REGIONS.

The craft sector, with its many small and medium-sized firms, is one of the most varied economic sectors in Germany. Its share in KfW commitments for small and medium-sized firms increased slightly in eastern Germany, while in the west a reduction is evident. In the new "Capital for Work" Programme the crafts have an above-average share of over 16% of the volume of commitments.

The regional emphasis for the KfW promotional programmes was again on the large states North Rhine-Westphalia, Baden-Württemberg and Bavaria. Bavaria, Hamburg, Rhineland-Palatinate and Berlin were able to increase their share of the promotion.

The Distribution of the Volume of Commitments between the Federal States in 2002¹⁾

Commitments in EUR million

	Trade and Industry	Environmental protection/renewable energies	Housing	Infrastructure	Total
	2002	2002	2002	2002	2002
Schleswig-Holstein	193	9	321	37	560
Hamburg	109	232	175	313	829
Lower Saxony	510	98	960	192	1,760
Bremen	44	1	72	27	144
North Rhine-Westphalia	1,161	446	2,272	591	4,470
Hesse	330	39	596	104	1,069
Rhineland-Palatinate	386	49	418	81	934
Baden-Württemberg	883	187	1,140	241	2,451
Bavaria	910	67	1,385	435	2,797
Saarland	43	2	104	10	159
Berlin	143	23	425	363	954
Brandenburg	47	45	313	48	453
Mecklenburg-Western Pomerania	88	10	207	67	372
Saxony	170	30	546	137	883
Saxony-Anhalt	122	38	241	51	452
Thuringia	126	1	236	51	415
Non-specified ²⁾	60	41	0	50	151
Total	5,326	1,318	9,411	2,798	18,853
Western federal states (without Berlin)	4,569	1,130	7,443	2,031	15,173
Eastern federal states (with Berlin)	697	147	1,968	717	3,529

¹⁾ Not including loan commitments under global loans, for which figures are not yet available.

²⁾ Of which: commitments for investment abroad (2002: EUR 95 million).

EXPORT AND PROJECT FINANCE.



KFW MAINTAINS ITS GOOD POSITION WORLDWIDE.

THE BANK ACHIEVES A SOUND RESULT.

KfW achieved a sound result in export and project finance in 2002, with commitments totaling EUR 6.1 billion (EUR 8.2 billion). Despite the persistent weakness in the world economy we were able to maintain our position well in the markets that are important for our foreign commercial business. These are firstly financing export goods produced in Germany and other European countries that are becoming increasingly important, and secondly, financing direct and other corporate investment.

The bank increased its commitment to direct investment and acquisitions by German firms abroad in 2002 as well. This business accounted for around 43% of the total volume of commitments in export and project finance in the year under review.

Loans in euros accounted for just under 40% of the total volume of finance. Among the foreign currencies the US dollar predominated.



The Development in the Individual Areas of Business

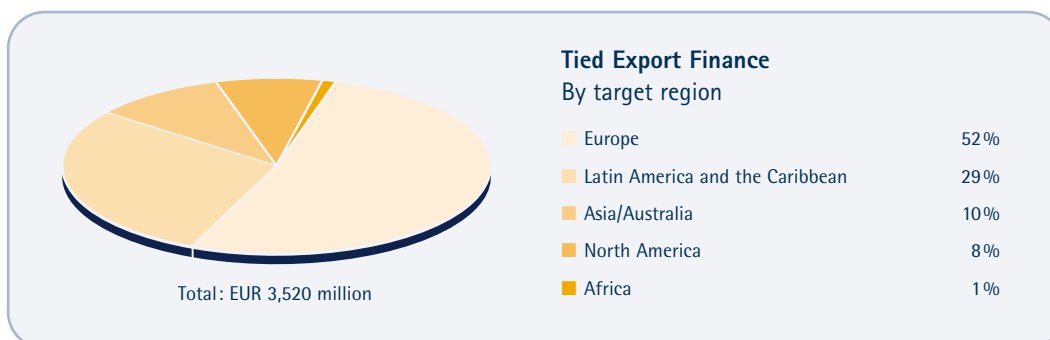
Loan commitments in EUR million

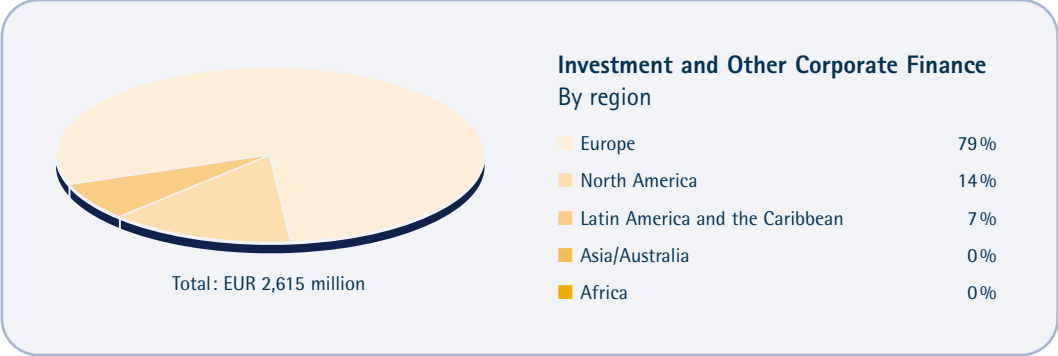
Area of business	Export finance	Investment finance	Total	Main focus
Industry	896	498	1,394	Vehicle construction, chemicals, steel
Energy, environment	357	565	922	Electricity generating and transmission plant, environmental technology
Telecommunications	451	402	853	Mobile communications systems
Raw materials	90	270	361	Mining projects
Ships	574	109	683	Cruising vessels, ferries and container ships
Aircraft	837	142	979	Airbus deliveries
Overland transport	187	470	657	Rail transport
Ports	127	159	286	Airport and seaport terminals
Total	3,520	2,615	6,135	

THE REGIONAL DISTRIBUTION OF LOAN COMMITMENTS.

Europe is still increasingly the main focus in the regional distribution of commitments. That applies to both export and investment finance. During

the year under review Latin America regained importance as a market.

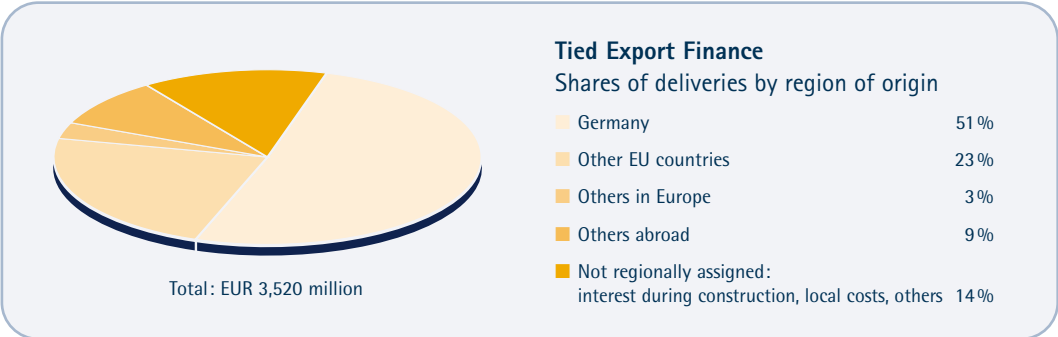




FINANCE FOR AND IN EUROPE.

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

Promoting the process of European integration remains an important business policy objective of KfW export and project finance. Hence, export finance for European delivery packages and finance for European companies that are advancing the process of European integration on corporate level remain key areas of our activity. In addition, KfW again participated in financing major infrastructure projects in 2002, as part of TEN (Trans-European Network) projects.



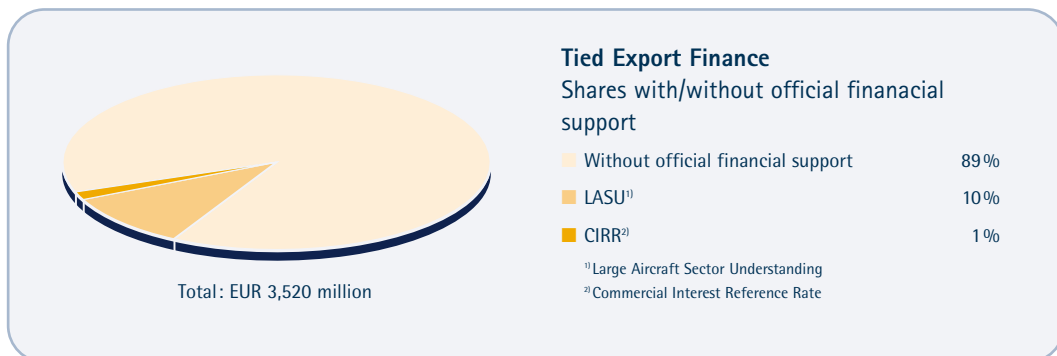
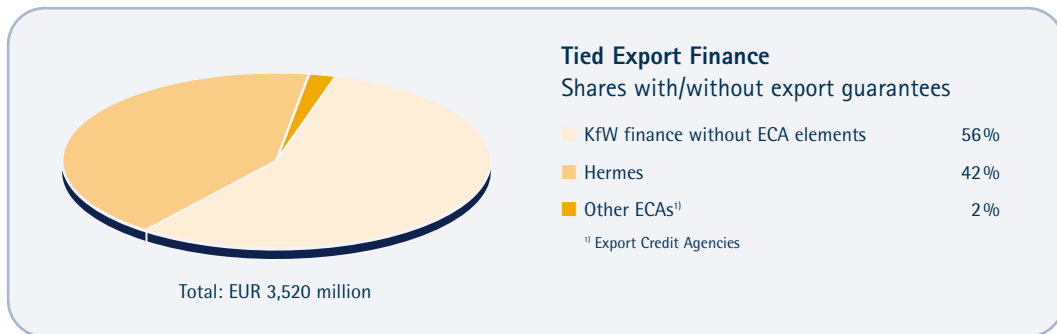
FINANCE WITH OFFICIAL SUPPORT.

Credit insurance and officially supported loans as instruments of state export promotion continue to play an important role in business relations with certain countries and in certain markets. The share of finance with Hermes cover rose again during the year under review. Moreover, co-financing foreign deliveries resulted in more cooperation with foreign credit insurers.

With the help of funds from the federal budget KfW again made finance available in 2002 at interest rates that were in conformity with the international agreements on state-supported interest rates for the Commercial In-

terest Reference Rate (CIRR) and for the aircraft sector. This type of finance remains an important element in maintaining the competitiveness of German exporters in the relevant market segments.

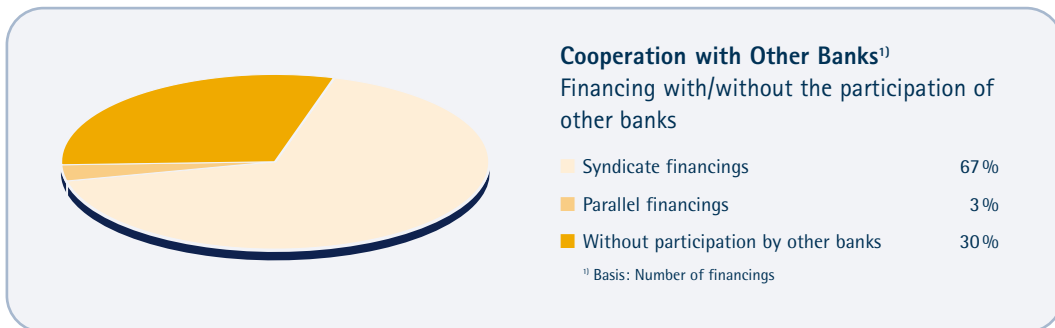
The share of CIRR finance was rather low during the year under review. That is due to the relatively low demand for export finance from developing countries, for unlike other OECD countries, under the German system of officially supported interested rates only developing countries are eligible.



COOPERATION WITH OTHER BANKS.

In the production of goods, in services and in the export business cross-frontier cooperation between companies is growing. Accordingly, cooperation between banks and other financial institutions is also strengthening. A good 67% of all KfW's financings in 2002 were carried out jointly with other banks.

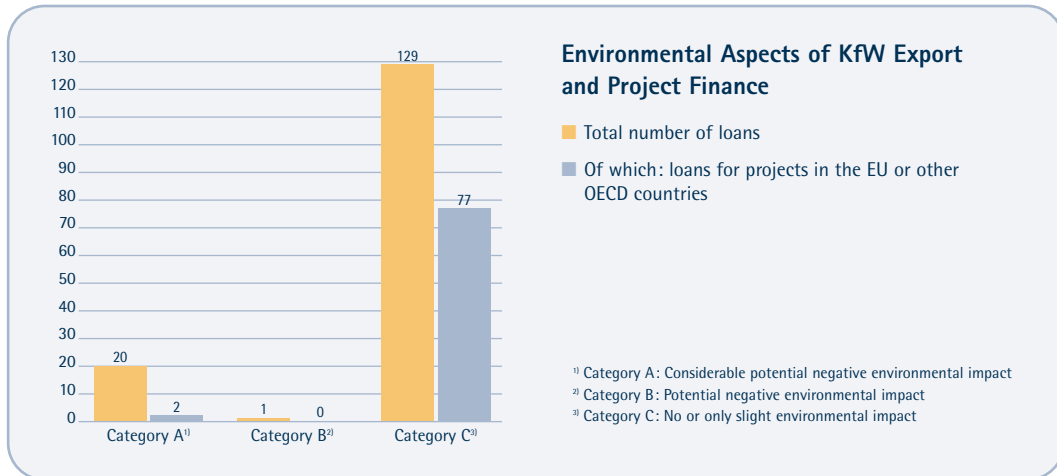
In tied export finance cooperation evolves particularly when large parts of deliveries or services from different countries are combined. In investment and other corporate finance syndicate financing is the rule for large volumes.



RESPONSIBILITY FOR THE ENVIRONMENT.

Under the environmental policy guideline for KfW export and project finance all loan applications are subject to "screening" (preliminary appraisal), in which the environmental and social aspects

of the projects to be financed are examined. In 2002 150 new loans submitted for approval were screened in this way.



Category A and B projects are subject to a more in-depth appraisal during which the technical and environmental experts in KfW are consulted. This procedure is only omitted if the project is to be carried out in an EU or other OECD country that has established environmental protection legislation and practice.

The appraisal also need not be made if

- the delivery to be financed is only a small part of the project as a whole
- the investment involves replacements in existing plant.

PROMOTION OF THE DEVELOPING COUNTRIES.



ALLEVIATING POVERTY IS SECURING PEACE.

COMMITMENTS BY THE KfW GROUP: SURVEY.

To promote the developing and transition countries KfW and DEG together committed around EUR 1.8 billion in 2002. The commitments included funds from the federal budget, especially the Federal Ministry of Economic Cooperation and Development (BMZ), and funds from other donors for the execution of mandates, e.g. for the EU. KfW and DEG supplemented these funds

with their own funds, some of which were raised in the capital market. Altogether KfW and DEG disbursed around EUR 1.7 billion for these projects in 2002. In its cooperation with the developing countries DEG continues to concentrate on promoting the private sector, while the main focus of KfW's promotion is still on projects in the public sector.

Commitments by the KfW Group to Promote the Developing Countries 1998 – 2002

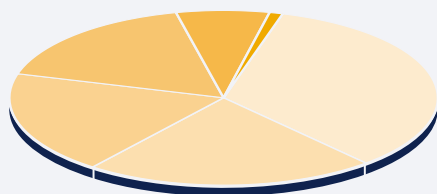
EUR million

	1998	1999	2000	2001	2002
FC commitments at preferential conditions	1,390	1,634	927	1,316	1,111
From budget funds	1,357	1,278	851	1,040 ¹⁾	971
From market funds in composite finance/ mixed finance/ interest rate reductions	33	356	76	276	140
Commitments for FC promotional loans			30	116	41
Commitments under mandates incl. the TRANSFORM Programme	35	38	62	162	139
DEG-Commitments	358	343	360	412	464
Loans to the IMF Poverty Alleviation and Growth Facility			495	1,430	
Total commitments	1,783	2,015	1,874	3,436	1,755

¹⁾ This amount includes an additional EUR 14 million FC funds for basic and advanced training courses in partner countries

The Regional Distribution of Commitments by the KfW Group in 2002

EUR million and %¹⁾



Asia and Oceania	596	34%
Europe and Caucasus	392	22%
Sub-Saharan Africa	333	19%
Latin America	292	17%
North Africa and the Middle East	119	7%
Supra-regional	22	1%

¹⁾ Deviations due to rounding

KFW'S ACTIVITIES.

AROUND 1,400 PROJECTS IN 109 COUNTRIES.

On behalf of the Federal Government KfW promotes investment and macro-economic and sectoral reform programmes in developing countries. As part of this Financial Cooperation (FC) KfW assesses the eligibility of projects for development policy, finances and supports their execution and finally appraises the success of each project.

The main aim of FC is to alleviate poverty. This helps to reduce social and economic tensions and risks to the environment, and so makes an important contribution to securing peace worldwide. The projects and programmes are embedded in the development strategies of our partners in the developing countries and they are also closely coordinated with the projects of the German Agency for Technical Cooperation (TZ) and other bilateral and multilateral donors.

The funds provided for FC from the federal budget can be supplemented in some countries and projects that are suitable with market funds raised by KfW. The market funds are provided together with FC budget funds as mixed or composite finance, or in the form of a loan at reduced interest rates. The mix is such that the financing as a whole is eligible as OECD development aid. Market funds greatly widen the scope for financing under FC.

In view of the decline in the available budget funds and heavier demand for development finance KfW introduced a new product in 2000, the FC promotional loan. These loans can be provided at conditions similar to market conditions for projects that are eligible for development promotion and economically viable. KfW is currently promoting a total of 1,408 projects in 109 countries.

THE DEVELOPMENT IN KFW COMMITMENTS.

KfW committed around EUR 1.3 billion (EUR 3.0 billion) to promote the developing countries last year. Excluding a special loan of EUR 1.4 billion the volume of commitments fell from the previous year by around EUR 300 million.

The commitments using BMZ budget funds were 7% below the previous year's figure at EUR 971 million after EUR 1,040 million. That is mainly due to project-dependent postponements. 70% of these commitments were given as non-repayable grants and just under 30% as long-term loans at favourable interest rates.

In the developing countries as well investment was stretched over longer periods of time or postponed in 2002. One reason for this was the expectation that interest rates would fall

further owing to the generally weak economic trend. This also affected the volume of finance with market funds and FC promotional loans. Despite the difficult conditions in the world economy KfW was able to mobilize a total of EUR 181 million (EUR 392 million) for projects of this kind.

As in previous years KfW also made its competence in the appraisal and execution of development projects available to other bilateral and multilateral donors in 2002. As a result the bank received mandates totalling EUR 139 million (EUR 161 million) last year from the European Commission, from bilateral and multilateral partners and other German ministries.

THE STRUCTURE OF KfW COMMITMENTS AT PREFERENTIAL CONDITIONS.

The Asian countries again received the largest share of FC commitments in 2002 at 38% (46%). That is i.a. due to the relatively high level of funds committed to Afghanistan. Sub-Saharan Africa also registered a considerable growth in absolute commitments, with its regional share rising to 25% (16%). The reasons for this are the continued commitment of German development cooperation to this region and the promising developments in many African countries in recent years. The share of commitments to Latin America also rose in 2002. At 15% (6%) it is considerably above the previous year's level.

In contrast, the share of commitments to Europe/Caucasus fell to 15% from 19%, and to North Africa/Middle East to 8% from 14%. However, these figures are not a reflection of a general trend, they are due to the usual project and cyclical postponements, and despite these falls there are positive signs. In Southeast Europe, for example, a clear improvement is expected over the medium term. This is due to political stabilization, the consistent reform policy in most of these countries, and the relatively good economic development and growth prospects.

Altogether commitments by KfW and DEG in 2002 were more evenly spread across the regions than in the previous year.

The sectoral distribution of commitments was also rather more evenly spread in 2002. The volume of commitments for the economic infrastructure fell to 27% (43%). The main sectors covered were energy and transport. By contrast, the share of social infrastructure – water supplies, sewage treatment, education and health – rose to 40% (30%). The share of the financial sector again reached its earlier level at 12% (9%), not least due to the instrument of the FC promotional loan, which is still new. Commitments to forestry and agriculture fell back from the unusually high volume of the previous year (10%) to their long-term level of 7%.

At 49% (46%) nearly half the volume of promotion in 2002 went to the cross-sectoral area "poverty reduction". Around 22% of the funds were explicitly committed for environmental and resource protection. Another 15% went to projects in which environmental and resource protection are important additional aims.

RESCHEDULINGS AND DEBT CONVERSIONS FOR ENVIRONMENTAL PROTECTION AND POVERTY ALLEVIATION.

Under certain conditions the Federal Government is prepared to ease the repayment of development loans already given, or write off part of them, for highly indebted partner countries that are willing to undertake reforms. Agreements of this kind are given in coordination with the international community of donors in the Paris Club or through the Heavily Indebted Poor Countries (HIPC) Initiative, that is administered by the International Monetary Fund (IMF). KfW participates in the negotiations on the German side.

To ease debts for partner countries in 2002 KfW signed rescheduling agreements with Côte d'Ivoire, Ghana, Indonesia, Jordan, Yugoslavia,

Cameroon, Kyrgyzstan, Nigeria and Pakistan for a total of EUR 3.7 billion. In addition, Bolivia was the first country to have its debt finally written off under the HIPC Initiative. The amount was EUR 335 million.

The Federal Government committed EUR 49 million for debt conversions in 2002. In these cases the debtor country is released from repayment of the amount if the funds so saved are used in the country for poverty reduction projects and to protect the environment. KfW signed corresponding agreements for EUR 97 million in 2002, which included some amounts committed in earlier years.

DEG'S ACTIVITIES.

THE HIGHEST VOLUME OF COMMITMENTS TO DATE.

The continued weakness in the world economy and the difficult conditions for investment policy in numerous partner countries also affected the business climate for DEG in 2002. Despite this, DEG was able to expand its financing business further last year, reaching its highest volume of commitments to date at EUR 464 million (EUR 412 million). That was an increase of 13% from the previous year. To finance the new business DEG used EUR 462 million (99.7%) of its own and capital market funds (DEG funded transactions) and around EUR 2 million (0.3%)

trust funds from the Federal Government (transactions on a trust basis).

DEG committed EUR 49 million for participation finance. The share of loans amounted to EUR 398 million, of which EUR 31 million was provided in the form of loans similar to equity participation. Hence, the use of risk capital in the form of participations and mezzanine financings amounted to EUR 80 million. This was 17% of the total volume. EUR 16 million was committed under guarantees.

THE REGIONAL AND SECTORAL DISTRIBUTION OF THE DEG COMMITMENTS.

The 66 investment projects cofinanced by DEG were spread through 31 countries. The main regional focus was Asia (without Caucasus/Turkey) with 35%, ahead of Europe/Caucasus/Turkey with 25%. Latin America followed with 21%, sub-Saharan Africa with 12% and North Africa/Middle East with 7%.

The sectoral focus for the new commitments was on manufacturing with 38% and the devel-

opment of the financial sector with 36%. 21% of the new commitments went to infrastructure projects (water supplies, communications, energy and transport). The agricultural sector, including forestry, had a share of 3% of the total volume, while other services accounted for 2%.

PROMOTIONAL PROGRAMMES AND CONSULTANCY.

DEG provided consultancy for German and foreign companies in 2002. The objective was to promote cooperation with the private sector in partner countries. DEG made its know-how available for the preparation, structuring and realization of investment projects in the developing and transition countries.

DEG was also active under the Public Private Partnership Programme for development partnerships with the private sector, in short PPP, initiated by BMZ. In 2002 it agreed 52 PPP projects with German firms. The projects received a total of EUR 8 million in funds provided by the Federal Government. A total volume of just under EUR 21 million was realized, which included EUR 13 million in mobilized private funds. Since 1999 DEG has promoted a total of 231 PPP projects, around 70% of which were executed in

cooperation with small and medium-sized project partner firms.

On behalf of BMZ DEG offers a special programme for skilled personnel from developing countries who are returning to their homelands and wish to set up a business. Revolving loan funds have been set up for this purpose with local partner banks in eight partner countries. The funds provide start-up capital at market conditions for young persons setting up a business. DEG is also supporting new businesses in Afghanistan on behalf of BMZ. Non-repayable equity aid is available for this under a programme that is initially designed for three years. As an integral part of an international combination of measures it is helping to reconstruct the country and create greater means of employment and income.

CURRENT DEVELOPMENTS AND OUTLOOK.

POVERTY-ORIENTED DEVELOPMENT POLICY AS CRISIS PREVENTION.

Terrorism and war have become a constant threat throughout the entire world. They have given a new significance to the contribution development policy can make to reducing poverty and the consequent lack of prospects for large sections of the population. Poverty-oriented development policy eases human need, opens up better prospects and so helps to secure peace. That is particularly necessary in crisis situations. Of course, German development policy cannot solve these problems alone and certainly not without the active cooperation of the people on the spot.

That is particularly evident in Afghanistan. Since the beginning of 2002 KfW and GTZ have been present in Kabul with a joint office. It coordinates the emergency aid for the reconstruction on the spot. Among other things the

work of rebuilding education and health care facilities and energy and water supplies is being financed with FC funds. In 2002 it was possible to start 13 projects, despite many initial difficulties, and five of these are now completed. Despite these efforts and good cooperation between the donors the conditions in this country will remain extremely difficult for a long time to come. Lasting results can be achieved only with longer-term commitment.

Preventing crises and securing peace are an important theme, not only in Afghanistan and its neighbouring countries. They are also being achieved under the Stability Pact in Southeast Europe, for example, in the Palestinian Territories and in Central America. The success of these programmes largely depends on whether their effects are directly felt by the local people.

SUSTAINABLE ENERGY FOR DEVELOPMENT.

At the "World Summit for Sustainable Development 2002" in Johannesburg the international community of states agreed in a statement of intent greatly to increase the share of renewable energies. An important theme here was to diversify energy supplies and to increase energy efficiency. To achieve these goals Federal Chancellor Gerhard Schröder committed EUR 1 billion – spread over 5 years – for the Sustainable Energy for Development Programme. The funds are being used massively to support the diversification of energy supplies and energy-saving in the developing countries.

KfW will further expand its FC activities in the renewable energy sector. It is already the biggest financier worldwide in this innovative area of promotion that is crucial to development policy. In view of the importance this sector has acquired the theme "Energy efficiency, renewable energy and climate protection" is the main focus of this year's Annual Report on Development Cooperation by KfW and DEG (to be published in June 2003).

WATER AS THE BASIS FOR SUSTAINABLE DEVELOPMENT.

More than 1 billion people worldwide live without access to clean drinking water. More than 2 billion people do not have proper sanitary facilities. The results are devastating. It is estimated that 80% of all cases of disease in the developing countries are due to inadequate water supplies and sewage treatment. Water shortage and inadequate sewage treatment are a major obstacle to social and economic development in many countries. Hence in its Millennium Declaration the community of states set itself the aim of halving the share of people without access to clean drinking water by the year 2015.

Accordingly the water sector is an important focus for KfW's promotional work as well. In the past five years the bank has committed around EUR 260 million annually for water projects.

Sustainable development success can be achieved in this sector only if the future users are involved in the project. At the same time the project environment must be taken into account in site-specific planning and execution. In rural water supply projects the future users are incorporated in the whole project, from the consideration of alternative solutions right through to the decisions on the forms of organization for the operation of the plant. To direct urban infrastructure projects to customers' needs early public relations work is important. Financial sustainability is ensured with suitable scales of charges that take account of the earnings situation of the poorer groups in the population.

KEY LABOUR NORMS IN DEVELOPMENT COOPERATION WORK.

Key labour norms, such as banning child labour, have long been taken for granted in our country, but in many countries they are not yet adequately implemented. Worldwide around 250 million children between the ages of five and 14 have to work, often under humiliating conditions, and they are paid either badly or not at all. It is therefore a central concern of German development policy to improve working and living conditions. The objective is to ensure that the key labour norms are observed in our partner countries as well.

KfW is now supporting this with a supplement to its guidelines on promotion for FC projects. The supplement is to ensure that when contracts are awarded locally in the developing countries, e.g. to construction firms, all the key labour norms applying in the country are observed. In addition, KfW particularly supports FC projects that reduce gender discrimination or strengthen the involvement of the civilian population.

COMPREHENSIVE REORGANIZATION OF KfW'S REGIONAL DEPARTMENTS.

A comprehensive reorganization of KfW's regional departments was prepared in 2002 under the name "TEMPO" (transparent development of a modern and professional organization). The reorganization has been in effect since January 2003. The main aim is to orient the organization even more strongly to contracting authorities and project execution. It should ensure that our work is performed efficiently, expertly and economically.

The change in our organization structure had become necessary following many internal and environment-related changes. It was supported with broad discussion with all the men and women in these departments (cf. the chapter "The Men and Women on our Staff, pp. 94).

Our Board of Managing Directors agreed the new organization structure in mid-2002. The assignment of the regions to two general areas has been retained and the previous seven regional departments are reduced to five: Asia, Europe,

North Africa/Middle East, Sub-Saharan Africa and Latin America. Within these regional teams have been set up with responsibility for regional strategy, the country portfolios and coordination with other donors.

The grouping of the projects follows the promotional focal areas of BMZ. This enables us to handle them in sector divisions of economists and technical experts. Some sector divisions have been made into centres of competence. It is their task to make available expertise for BMZ and other contracting authorities, the KfW Group and the other regional departments. They are also to ensure that the expert knowledge within the bank is continually developed.

The tasks of the policy department include business policy, procedural questions and the development of new financial products, development country economics, planning and monitoring, EDP coordination and basic technical questions.

Promotion of the Developing Countries.

Promotion of the Developing Countries – Commitments by KfW in 2002 by Countries EUR million

Position	Country	KfW	DEG	Total
1	Turkey	141.29	12.50	153.79
2	India	58.97	57.81	116.78
3	People's Republic of China	76.21	39.37	115.58
4	Indonesia	98.60	10.00	108.60
5	Philippines	47.32	20.38	67.70
6	Brazil	30.50	29.04	59.54
7	South Africa	48.06	2.75	50.81
8	Afghanistan	49.73	0.00	49.73
9	Dominican Republic	31.82	16.64	48.46
10	Egypt	24.79	20.00	44.79
11	Romania	1.02	34.58	35.60
12	Bosnia and Herzegovina	22.58	12.82	35.40
13	Bangladesh	30.32	5.04	35.36
14	Bolivia	32.78	0.00	32.78
15	Africa, supra-regional	0.00	32.50	32.50
16	Vietnam	32.21	0.00	32.21
17	Kosovo	31.02	0.00	31.02
18	Serbia	26.13	1.10	27.23
19	Chile	27.10	0.00	27.10
20	Tanzania	12.83	12.88	25.71
21	Ukraine	0.00	24.50	24.50
22	Supra-regional	21.61	0.61	22.22
23	Peru	15.59	6.10	21.69
24	Venezuela	0.00	20.97	20.97
25	Costa Rica	18.66	2.15	20.81
26	Uganda	19.71	0.00	19.71
27	Palestinian Territories	19.45	0.00	19.45
28	Côte d'Ivoire	13.25	6.10	19.35
29	Yemen	19.11	0.00	19.11
30	Mozambique	18.85	0.00	18.85
31	Malawi	18.10	0.00	18.10
32	Mexico	0.00	17.86	17.86
33	Niger	17.05	0.00	17.05
34	Albania	16.72	0.00	16.72
35	Zambia	15.94	0.00	15.94
36	Ethiopia	14.83	0.00	14.83
37	Mali	14.83	0.00	14.83
38	Burkina Faso	14.20	0.00	14.20
39	Macedonia	13.43	0.00	13.43
40	Mongolia	12.58	0.00	12.58
41	El Salvador	10.31	1.95	12.26
42	Panama	12.23	0.00	12.23
43	Kazakhstan	2.56	9.60	12.16
44	Morocco	11.47	0.00	11.47

(cont.)

Position	Country	KfW	DEG	Total
45	Lebanon	0.00	10.56	10.56
46	Pakistan	0.00	10.16	10.16
47	Europe, supra-regional	0.00	10.14	10.14
48	Russian Federation	0.00	10.00	10.00
49	Tunisia	9.72	0.00	9.72
50	Benin	9.71	0.00	9.71
51	Cap Verde	8.69	0.00	8.69
52	Nicaragua	8.29	0.00	8.29
53	Namibia	7.11	0.00	7.11
54	Cameroon	6.14	0.92	7.06
55	Georgia	3.76	3.00	6.76
56	Kyrgyzstan	6.59	0.00	6.59
57	Ghana	6.39	0.00	6.39
58	Senegal	6.14	0.00	6.14
59	S.A.D.C.	6.14	0.00	6.14
60	Cambodia	6.14	0.00	6.14
61	Guatemala	5.11	0.00	5.11
62	Armenia	5.11	0.00	5.11
63	Bulgaria	5.00	0.00	5.00
64	Slowenia	0.00	5.00	5.00
65	Uzbekistan	5.00	0.00	5.00
66	Thailand	0.00	4.89	4.89
67	Asia, super-regional	0.00	4.40	4.40
68	Southeast Europe	4.21	0.00	4.21
69	Chad	4.09	0.00	4.09
70	Hungary	0.00	4.00	4.00
71	Madagascar	3.58	0.00	3.58
72	Papua-New Guinea	3.07	0.00	3.07
73	Honduras	2.91	0.00	2.91
74	Rwanda	2.91	0.00	2.91
75	Syria	2.56	0.00	2.56
76	Guinea	2.50	0.00	2.50
77	Nepal	2.50	0.00	2.50
78	Nigeria	0.00	2.50	2.50
79	Kenya	2.33	0.00	2.33
80	Moldavia	2.30	0.00	2.30
81	Colombia	2.00	0.00	2.00
82	Sierra Leone	1.77	0.00	1.77
83	Tajikistan	1.50	0.00	1.50
84	East Timor	1.30	0.00	1.30
85	Montenegro	0.40	0.51	0.91
86	Azerbaijan	0.77	0.00	0.77
87	Algeria	0.70	0.00	0.70
88	Jordan	0.47	0.00	0.47
89	America, super-regional	0.00	0.40	0.40
Total		1,290.67	463.73	1,754.40

ADVISORY AND OTHER SERVICES.



KFW EXPANDS ITS RANGE OF SERVICES AGAIN.

INFORMATION AND CONSULTANCY IN THE DOMESTIC PROMOTION BUSINESS.

AS MUCH SERVICE AS POSSIBLE.

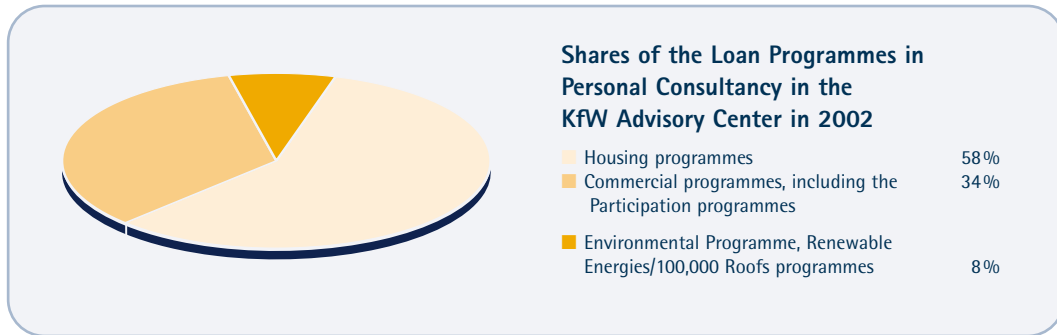
Rapid information and individual advice – this is what KfW's business partners want and the bank responded even more strongly in 2002. The wider range of offers to specific target groups proved particularly successful. Our sub-borrowers obtain their initial information chiefly from the Internet or by telephone from the KfW Information Center. Consultancy on the spot from banks and multipliers is supported by KfW with offers of special workshops.

NEW INFORMATION ON THE INTERNET.

For KfW the Internet is the main medium for the provision of rapid information on our promotional programmes. Under www.kfw.de interested parties can now download all they need to know about our three promotional areas, corporate finance, equity finance and building, housing and climate protection, focussing on their particular aims. They can also choose the promotional programme that specifically suits their project with the support of our interactive loan advisory tools. Our on-line service on equity finance also offers a VC Coaching Corner with tips on VC finance. KfW also makes on-line consultancy available to our customers on themes that go beyond promotion. The interest is great. The new advisory website on building promotion, for example, www.baufoerderer.de, had 2.8 million pageviews in the start-up year alone. The user will find a hitherto unique combination of calculations on promotion and tips on financing, building consultancy and building regulations.

THE BERLIN ADVISORY CENTER – A SERVICE POINT FOR PRIVATE INDIVIDUALS AND COMPANIES.

Sound advice on customized financing using official promotional funds – that is the aim of KfW's Berlin Advisory Center. Since October 2000 it has been offering consultancy on financing on the spot. Private individuals and companies can receive advice there in person, in detailed discussions with experts from KfW. Visitors in 2002 were particularly interested in financing owner-occupied housing and promotion for climate protection and energy-saving measures. Towards the end of the year companies' interest in the new programme "Capital for Work" was growing.

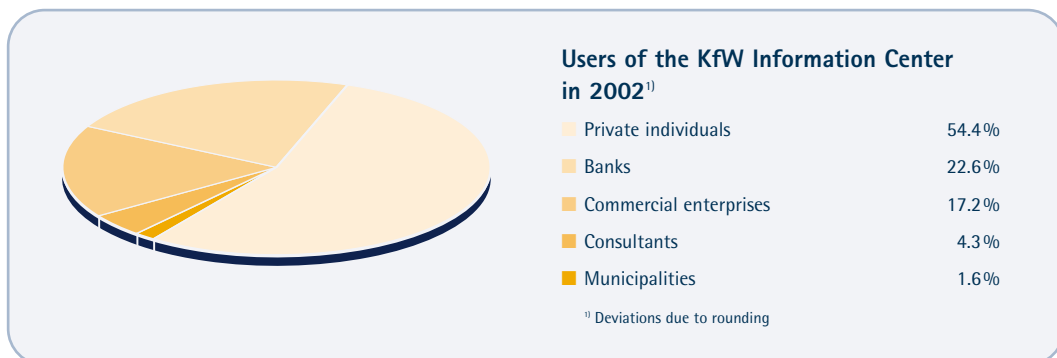


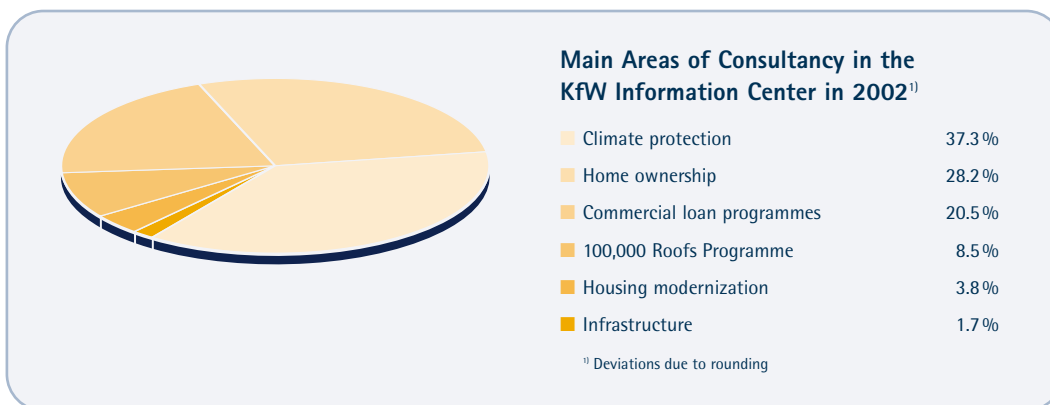
THE INFORMATION CENTER.

The KfW Information Center was very well attended last year as well, with more than 200,000 calls and questions on all KfW's promotional loan programmes. The share of commercial themes and enquiries grew compared with earlier years. That is largely due to the new programme "Capital for Work". However, enquiries from private individuals about loans at favourable conditions for climate protection and energy-saving measures are still in the lead.

Since January 1, 2003 the Information Centers run by KfW and Deutsche Ausgleichsbank

have been providing information across the institutes on all the promotional programmes of the "SME Bank". All interested callers are given active support and advice on their projects, from setting up the business to settling the succession. A special telephone line for this has been opened in the Information Center, 0180/24 11 24. As the merger of KfW and DtA progresses the Information Centers will also merge, offering an even better service to all our customers.





STRENGTHENING OUR BUSINESS PARTNERS' COMPETENCE IN ADVISORY SERVICES.

KfW's main partners are banks. In partnership and cooperation KfW supports the banks and savings banks in advisory services to their customers and in handling promotional loans. This is done through an intensive exchange of experience and workshops, and with up to date information.

Another project to qualify multipliers was successfully started: workshops and specialised conferences to familiarize chambers and consultants even more with the KfW promotion programmes. They can then pass on this knowledge to customers for KfW efficiently and competently.

TASKS IN CONNECTION WITH GERMAN UNIFICATION.

IMPLEMENTING AND EXECUTING THE LAW ON ASSISTANCE WITH OLD DEBTS (AHG).

On behalf of the Federal Government and the federal states KfW took on the implementation of the Law on Assistance with Old Debts (AHG) in 1993. The aim of the law was to improve the ability of the east German housing enterprises to borrow and invest by relieving them of part of their old debts. In return the housing enterprises undertook to renovate their housing stock and sell 15% of the housing, preferably to the tenants. This made a considerable contribution to increasing the ratio of owner-occupied housing in east Germany.

The second amendment to the law of August 2000 made it easier for the housing enterprises to fulfil their privatization obligations. As a result, to date about 95% of the housing enterprises have confirmed that they have fulfilled their privatization obligations or cannot do so for reasons beyond their control. So far around EUR 820 million has been allocated to the Inherited Debt Fund (ELF) out of the receipts from privatization. The amendment to the law also included an ordinance empowering the Federal Government to grant further relief from old debts

if housing is being demolished or reduced. Under the regulations in this ordinance housing enterprises can apply for and be granted more assistance with old debts if they are facing insolvency because a considerable percentage of their housing stock is standing empty. The ordinance is thus making an important contribution to sta-

bilizing the housing market in the new states. KfW has undertaken to implement the Ordinance on Assistance with Old Debts, which came into force on January 1, 2001, on behalf of the Federal Government. The deadline for applications is December 31, 2003. So far 34 applications have been approved for a volume of EUR 267 million.

STOCK OF OLD CLAIMS REDUCED FURTHER.

The stock of old claims handled by KfW on behalf of the Federal Government was considerably reduced. The volume of the old claims that passed to the Federal Government on reunifica-

tion originally amounted to around EUR 3.3 billion, and this has now been processed down to a remaining amount of EUR 92 million.

CLAIMS RESULTING FROM FOREIGN TRADE BY THE FORMER GDR.

On behalf of the Federal Government KfW handles claims on a number of foreign states resulting from foreign trade by the former GDR. On December 31, 2002 they amounted to around EUR 1.5 billion. During the year under review the remaining balance with the Russian Federation was finally settled. Payments received totalled around EUR 406 million, of which EUR 350 million was from the Russian Federation alone.

At the same time KfW is also handling claims on German exporters for reimbursement arising out of amounts wrongly offset against transfer rubles. In 2002 the bank collected around EUR 1.2 million of these claims.

KfW was able to collect around EUR 407 million on the two complexes together for the Federal Government during the year under review.

THE COMPENSATION FUND FOR CURRENCY CONVERSION.

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

On December 31, 2002 the compensation claims assigned amounted to EUR 45.6 billion.

Of this EUR 43.6 billion was converted to bearer bonds. The compensation liabilities amounted to EUR 1.9 billion.

After deduction of the redemption payments already made a balance of EUR 3.4 billion remains to the Inherited Debt Fund.

FINANZIERUNGS- UND BERATUNGSGESELLSCHAFT MBH (FUB).

In February 2002 the Gesellschaft für kommunale Altkredite und Sonderaufgaben der Währungsumstellung mbH (GAW) changed its name. This completed the merger of GAW with the former KfW-Finanzierungsplanungs- und Beratungsgesellschaft mbH (FuB), which was backdated to January 1, 2001.

FuB's activities include handling business for the Federal Agency for Special Tasks resulting from Unification (BvS), chiefly:

- contract management to supervise and fulfil the obligations under the privatization contracts,
- handling participations for companies that are being wound up

- reprivatization, including handling private and public claims for restitution
- cross-sectional BvS tasks, like budget planning and accounting.

More than 600 privatization contracts were finally processed. For more than 660 companies the entry in the Commercial Register was either deleted or the appropriate application made. A notable number of open cases of restitution could also be dealt with, despite receipt of more new applications.

In addition, FuB handles special tasks connected with the currency conversion that were formerly handled by GAW, especially identifying persons entitled to make claims on foreign currency accounts held by non-residents at the time.

THE COMPENSATORY FUND FOR SECURITIES TRADING ENTERPRISES (EDW).

The EdW insures small investors against loss on their claims on securities transactions up to a minimum amount laid down by law. On December 31, 2002 1160 securities trading firms were members of EdW.

In the cases of 15 of the EdW member firms the Federal Institute for Financial Services Supervision (formerly the Federal Banking Supervisory Office) established that compensation was due. Altogether EUR 660,000 was paid out to 140 investors in compensation.

FUNDING.

KfW on Successful Course as Issuer Worldwide.

DEMAND ON THE CAPITAL MARKET EXCEEDS EXPECTATIONS.

A RECORD VOLUME OF CAPITAL MARKET ISSUES.

KfW and KfW International Finance raised a total of EUR 53.9 billion in long-term funds in the capital markets in 2002. That is an increase of around 40% from the previous year (EUR 38.6 billion). It far exceeded expectations.

At the start of 2002 we were still expecting a total volume of funding of about EUR 40 billion for the financial year. In mid-2002 our need for funds was revised upward to between EUR 45 and 50 billion. This was owing to the stronger demand in our lending business, repayments ahead of schedule on the liabilities side and

fewer unscheduled repayments. That the EUR 50 billion mark was clearly surpassed towards the end of the year was due to the heavy demand from investors. This continued after we had reached the level of funding we actually needed and amounts beyond that were used to build up a stronger liquidity position in 2002.

Foreign currency issues made a particular contribution to the record volume in 2002. They increased by 60.5%, reaching a volume of EUR 32.1 billion. Euro issues rose by 18.4% to EUR 21.9 billion.

KfW Borrowing in Domestic and Foreign Capital Markets¹⁾ EUR billion²⁾

	2001	2002
In EUR	18.5	21.9
<i>Of which: loans</i>	<i>0.7</i>	<i>1.3</i>
<i>securities issues</i>	<i>17.8</i>	<i>20.6</i>
In foreign currencies	20.0	32.1
Total	38.6	53.9³⁾

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

²⁾ Foreign currencies converted to EUR at exchange rates on day of borrowing.

³⁾ Deviations in totals due to rounding.

KfW BENCHMARK PROGRAMME SUCCESSFULLY EXPANDED.

The € Benchmark Programme maintained its successful course last year as well. As announced, three bond issues were floated in 2002, each for EUR 5 billion. Although the market environment was difficult all three were very successfully placed. We can now cover the greater part of the interest structure curve up to a term of ten years with our global bond issues. The €

benchmarks formed the core of our funding business in 2002 as well, with a share of 28% of the total volume.

Encouraged by the very good placing of the € benchmarks in the last two years KfW also expanded its presence in the US dollar market with a comparable US\$ programme. Demand from investors exceeded our expectations. The response

was so great that a third issue was floated in addition to the two intended USD global bond issues, which were for USD 3 billion each.

On average 48% of the USD global bond issues was placed with US investors. That is a particularly good result for a foreign issuer. KfW was not only able to widen its investor base worldwide but also to open up new groups of investors in the United States specifically.

In successfully expanding its benchmark family with the US\$ Programme KfW was able to continue its benchmark success story in 2002 as well. Altogether the KfW Benchmark Programme contributed 46% to our funding during the past year.

Beside the benchmark programmes KfW issues a large number of government bonds. Generally, these are for smaller volumes. They are also designed for the specific needs of individual groups of investors, e.g. the customers of the bank that is handling the placement. These bonds covered 24% of the volume of funding.

Another highlight in 2002 was a Uridashi issue, as it was called. For the first time KfW was able to place an issue that was not in the Japanese currency with Japanese private customers. The volume was EUR 150 million. Moreover, again for the first time two redeemable USD global issues were floated, each for USD 1 billion.

The € Benchmark Programme 2002

	EUR billion	Maturity	Interest rate in %
KfW € Benchmark IV	5.0	July 4, 2012	5.25
KfW € Benchmark V	5.0	August 17, 2007	4.75
KfW € Benchmark VI	5.0	November 15, 2005	3.50

The US\$ Programme 2002

	EUR billion	Maturity	Interest rate in %
USD Global Loan I	3.0	January 24, 2007	4.75
USD Global Loan II	3.0	April 18, 2005	4.25
USD Global Loan III	3.0	October 17, 2005	2.50

PRIVATE PLACEMENTS OF GROWING IMPORTANCE.

KfW occupies a leading position worldwide in customized issues for institutional investors. These are what are known as private placements. Altogether 425 issues for a total volume of EUR 14.1 billion were floated in 2002. That was a growth in volume of nearly 70% from the previous year. Most of the paper –

again around 70% of the volume – was issued as structured bonds. Borrower's rights of redemption are frequently a feature of structured bonds; they were used by KfW and KfW International Finance in securities to a total volume of EUR 5.14 billion in 2002.

Private Placements in 2002 by Currency¹⁾

	All private placements			Structured private placements		
	Number	EUR billion ²⁾	%	Number	EUR billion ²⁾	%
EUR	19	1.07	7.6	7	0.46	4.6
US Dollars	103	7.35	52.0	92	6.27	62.5
Japanese Yen	291	4.23	29.9	275	3.26	32.5
Others	12	1.48	10.5	1	0.04	0.4
Total	425	14.13	100	375	10.03	100

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

²⁾ Foreign currencies converted to EUR at exchange rates on day of borrowing.

2002 – THE YEAR OF THE US DOLLAR.

For the first time the volume of issues in US dollars exceeded borrowing in euros. The newly launched US\$ Programme greatly contributed to this. Bonds in US dollars accounted for about 43.7% of the total volume, while euro bonds accounted for about 40.5%. This exceptional result is firstly due to our efforts to widen our investor base in the United States. Secondly, it was helped by the favourable funding conditions in the US Dollar market last year and the heavy demand from investors for US dollars. Other currencies of importance for KfW were the Japanese Yen and the pound sterling.

In order to hedge the risks of funding in foreign currencies that are not needed to fund assets in the same currencies, and steer the risks of changes in interest rates, KfW uses derivatives. New interest and currency swaps were transacted for a volume of EUR 87.7 billion. Currency swaps were used to convert a considerable part of the funds borrowed in foreign currencies into euros, which were then used to fund our promotional programmes at favourable terms.

KfW Borrowing in 2002 by Currency¹⁾

	EUR billion ²⁾	%	Billion per currency
EUR	21.9	40.5	
Pounds sterling	2.6	4.8	1.6 GBP
US dollars	23.6	43.7	21.8 USD
Japanese Yen	4.2	7.8	500.1 JPY
Others	1.7	3.2	
Total	53.9³⁾	100.0	

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

²⁾ Foreign currencies converted to EUR at exchange rates on day of borrowing.

³⁾ Deviations in totals due to rounding.

OUR POSITION IN THE MONEY MARKET EXPANDED AGAIN.

MONEY MARKET ACTIVITIES CLEARLY INCREASED.

KfW can also look back on a successful year in the money market. The bank was able to build up its position as one of the leading issuers in the euro commercial paper market further. Investors here can acquire German Government credit in the short term securities segment of the market with an instrument that is extremely flexible in both terms and currencies. In 2002 more than 500 transactions were made in the Multi Currency Commercial Paper Programme with a volume of issues totalling EUR 38.8 billion. That was growth of around 55% from the previous year. The funds were used for short-term liquidity steering in KfW.

In addition, KfW International Finance has a US Commercial Paper Programme in the United States, which is the biggest market for commercial paper in the world. Transactions here numbered more than 1,000 with a total volume of USD 33.8 billion. That was year-on-year growth of just under 15%. Activities in this market segment are to be further increased in 2003 in order to make even better use of the market potential for KfW International Finance in the United States, and the programme will be increased to USD 6 billion.

INVESTOR RELATIONS ACTIVITIES CONTRIBUTED TO THE SUCCESS.

The Investor Relations Department, which was set up in KfW in 2001, successfully continued its operations. The continuous dialogue with investors was expanded worldwide. Widening the investor base in the United States was a major focus. To keep our investors all over the world well informed of KfW's current funding activities a newsletter, "update", is sent out in German and English quarterly. Moreover, investors can obtain information at any time on KfW and its securities from our Investor Relations hotline (tel: +49(0)69/74 31 22 22) or by e-mail under kfw.fm@kfw.de.

For communication with the national and international financial press the KfW Group's press department was expanded in 2001. That ensures that the (financial) journalists are kept informed of KfW's capital market activities. Last year press conferences were introduced in Frankfurt and London; they will be held every six months to give journalists detailed information on KfW's capital market activities and an overview of the coming half-year.

OUTLOOK FOR 2003.

KfW is assuming a need for funding in the capital market of between EUR 45 and 50 billion in 2003. The two benchmark programmes will be continued this year. Under the € Benchmark Programme more bonds will be issued for a total volume of EUR 15 billion, while issues totaling at least USD 6 billion are planned for the US dollar market under the US\$ Programme.

We will continue to unify our capital market activities in 2003. For this purpose we began last year to issue private placements in US dollars directly through KfW. That will also be done with the USD global bonds in 2003. Only the US Commercial Paper Programme will still be issued through KfW International Finance.

FURTHER PROGRESS IN AUTOMATIZING THE LENDING BUSINESS.

The IT applications for our investment lending business were again increased. The aim was to make support for this field of business as flexible as possible. As a result, new lending programmes like the "Special Flood Relief Programme" and "Capital for Work" could be implemented in the briefest time. The existing mainframe applications were extended with new business models, like the variable margin, and the most up-to-date Internet technology.

With the new electronic collection of forms on the Internet and their integration in our remote data transmission our partner banks were

provided with an efficient communication platform. It has been ready for use since January 2003. It works on the basis of the uniform application form now used by KfW and DtA, so implementing important elements of the merger of the two institutes.

A number of projects in payments transactions, i.a. the introduction of RTGSplus, will ensure that KfW remains in the forefront of technology in this field and that internal steps in payments transactions can be automated as far as possible.

SUCCESSFUL INTRODUCTION OF THE "SUMMIT" STANDARD SOFTWARE.

The gradual introduction of the "Summit" integrated standard software for trading, handling and invoicing was successfully completed this year. After the successful integration of the derivative business (OTC) in 2001 two further successive stages of the project followed in 2002. First all the money market business was incorporated in the system, and this was followed by the bond market transactions in the second stage.

At the same time the various information systems for funding were converted to a uniform liabilities information system. Its function is to provide extensive information for management decisions. With the completion of these projects the bank has positioned itself very well, both technically and in expertise, in this innovative market segment.

CREDIT RISK CONTROL OPTIMIZED AGAIN.

With new IT structures to administer corporate interlinking KfW has created the basis for credit risk control through risk units. The bank's rating instruments were also increased by the addition of new innovative procedures. Web-browser

based application systems were developed for this purpose. They combine the dynamic and flexibility of Internet technology with the efficiency and reliability of mainframe computer applications.

IT OPERATING PROCESSES CONVERTED TO ITIL STANDARD.

All the main processes in our IT operations were remodelled on the basis of the internationally recognized ITIL standard and introduced with tool support. This not only minimizes the operational risks in IT, it also provides optimal support for the required IT supervision. With this, and with building up a central network supervision (covering all servers), our computer centre has positioned itself within the KfW Group as a professional service provider.

IT INFRASTRUCTURE IMPROVED.

In 2002 the project "Extending the external access facilities to the KfW network" was carried out. Staff in our offices abroad and KfW staff can now access internal data relevant to our business activities from almost anywhere in the world. KfW has installed a reliable technology for this purpose, the Virtual Private Network (VPN), which meets today's security standards. A big terminal server farm was also designed and built up in 2002. It enables applications to be operated centrally and will help to "slim down" workplace computers noticeably. This will considerably reduce the expenditure on software maintenance and release changes.

THE MEN AND WOMEN ON OUR STAFF.

KfW's Most Important Asset.

THE KfW COMPASS IN THE IMPLEMENTATION PHASE.

Committed staff are the bank's most important asset. They are helping to build up the new KfW Group. Only with their support will we be able to tackle the changing demands of customers and markets with a positive offensive.

The "new" KfW Group will build up on the values that have always distinguished our institute. But if we are to meet future challenges successfully we need, firstly, to define our position, to see where we have come from and where the bank stands right now. Secondly, we need a navigation instrument that will show how KfW, its individual departments, and all the men and women on our staff, can utilize the opportunities and meet the challenges better in future. That is the purpose of KfW's model, the "KfW Compass".

More than 1,200 members of staff took part in the workshop discussions to implement the corporate model, which were held across all the

levels of our hierarchy. The discussions took various forms – round table talks with an external representative of the press, a talk with a restricted group of participants (e.g. trainees, staff in the operational departments) or a discussion on a specific theme (e.g. "Career Opportunities for Women", "The Concept of the Customer" or "Sustainability").

Another major element in implementing the model is the Compass Competition. It started on November 1, 2002, replacing the former system of suggestions from the staff and making the process much more attractive. Much greater demands are now being made on the creativity and commitment of all our staff, but they are also being much more strongly encouraged. The general aim is to improve work processes and communications flows in accordance with the concept of the Compass.

THE DEVELOPMENT IN THE NUMBER EMPLOYED AND THE PERSONNEL STRUCTURE.

KfW increased its staff again in 2002, taking on 74 new recruits. At the end of 2002 the bank employed 2,264 people, which was 3.4% more than a year before. The number employed in Frankfurt rose by 78 to 1,898, so by 4.3% over the previous year. The number employed in our Berlin branch and our regional offices fell again, by 4 to 366, a reduction of 1.1%. Altogether, the growth in personnel for KfW as a whole was noticeably lower in 2002 at only half the rate of the previous year.

The increase in the staff in Frankfurt was mainly in the lending and staff departments. In the lending business the increase in the number employed was mainly due to the creation of the new areas "Loan Securitization" and "Portfolio Management in Export and Project Finance".

The rise in the number employed in our lending area "Promotion of the German Economy", on the other hand, rose only at an under-average rate. In the staff departments the focus of personnel growth was on strengthening risk control and – as in previous years – building up our Information Technology and IT Coordination. "Legal Affairs", "Transaction and Collateral Management" and "Restructuring" were reorganized and expanded into separate departments. Hence, the organization now also reflects the increased importance of these areas.

In contrast to the development in the number employed in our lending and staff departments the number employed in our business area "Promotion of the Developing Countries" has fallen noticeably.

The number employed in our Berlin branch is being reduced as the tasks remaining from the time of the Staatsbank are being reduced. That is a continuance of the trend of former years. The reduction in the staff is being achieved through scheduled or early retirements. At the same time it has been possible to entrust the younger members of staff who are released as their work on the old business comes to an end with tasks in our domestic promotional loan business.

The share of staff on performance-related contracts in KfW has again risen markedly, and is now 68.2% (66.5%). The share of women has also risen, to 48.3% from 47.8%, as has the share of women on performance-related contracts, to 36.7% from 35.5%. The potential assessment procedure introduced three years ago, and the focus on promoting highly qualified women,

have brought an increase in the share of women in management posts, which has risen to 16.5% from 14.9%. Equality of opportunity for men and women has long been an important aim of our personnel work. It is in keeping with the central idea of the Federal Law on Equality of Opportunity, that came into force in December 2001 and also applies to KfW. In accordance with the provisions of the law our Board of Managing Directors appointed a woman member of staff as Equality of Opportunities Officer, and her female deputy as from July 2002, after holding staff elections for these posts.

The share of severely handicapped staff has fallen slightly, by 0.3% to 5.6%, as a result of the higher number employed and some retirements. But with its commitment to the integration of severely handicapped staff KfW is still clearly above the statutory requirement of 5%.

RISE IN EXPENDITURE ON PERSONNEL.

Total expenditure on personnel rose in 2002 by 11.3% to EUR 205.5 million (EUR 184.7 million). Salaries rose by 6.5% to EUR 145.1 million (EUR 136.2 million), while expenditure on social insurance contributions rose by 4.4% to EUR 21.4

million (EUR 20.5 million). Expenditure on provisions for pensions rose to EUR 38.9 million (EUR 28.0 million). EUR 15.8 million was paid out to pensioners and their surviving dependents (EUR 14.1 million).

PROMOTING YOUNGER STAFF.

KfW again devoted great attention to further training and promotion of its staff and to obtaining well qualified recruits. During the year under review 22 apprentices (24) started their professional training, and at the start of the new training year, in autumn 2002, altogether 63 apprentices (60) were receiving their first vocational training.

Young people in the new federal states are still finding it very difficult to obtain a training place in their immediate vicinity. Hence, for years KfW has responded particularly to applications from these regions when filling its training places.

These young people now account for half of all our apprentices.

The number of participants in our internal one-year trainee programme fell slightly, from 63 to 61. These young academics are being prepared for their future positions as loan officers, project managers in Financial Cooperation or officers in staff departments. At the end of the year KfW employed a total of 107 trainees and apprentices, after 105 in the previous year. The bank also employed 50 school boys and girls on its school practical courses.

PERSONNEL DEVELOPMENT AND ASSESSMENT.

KfW offers the men and women on its staff an extensive internal further training programme. Altogether 360 internal courses were held in 2002, on specialized, social and management competences. This offer of skills training was supplemented with a large number of language courses covering a total of eight foreign languages. The staff also had the opportunity to attend external events like congresses, specialist conferences and seminars.

In addition to the standard offers of further training a growing number of individual courses

for departments, teams and even individual members of staff are being designed.

The personnel assessment procedure enables us to draw up individual development plans. Staff members can be specifically promoted and prepared for management tasks. Of 336 staff members who applied for potential assessment 280 have been assessed by their superiors, 262 have had the potential interview and 182 have attended the potential development workshop.

CHANGE MANAGEMENT AT KFW.

Since May 2002 the "Tempo" project in our regional departments has been accompanied by personnel development. It forms part of the project, and supports the implementation of the new organizational structure (on the aim of the project see p. 75).

The main tasks of change management were to design and implement an adequate placement procedure, create a uniform understanding of the new management roles, initiate team formation processes and establish viable interfaces.

Instead of the former "sub-departments" regional and specialized teams have been formed. This has changed the workplace for nearly 260 members of staff, affecting both management, project managers, technical experts, sector economists and men and women on collectively agreed rates. In a preference identification procedure they were all given the opportunity to name three positions in the new structure which they would like to have and to apply in accordance with their knowledge and abilities. The placement procedure was carried out in close cooperation with the Staff Council and it met with a high degree of acceptance from all involved.

The management roles in the regional areas were modified and some new ones created as part of the new structure. The management staff can now concentrate more on management, control and strategic tasks. To make this new orientation tangible to the management a total of seven Role Workshops have been held since early September 2002. In these two-day workshops the management staff clarified and agreed their new roles. This was done on the basis of role descriptions that had been worked out. At the same time they defined the competences needed.

The new organizational structure came into force on January 1, 2003. Both the start and the constitution of the new regions are being supported by team development workshops. Between the end of January and the beginning of March 2003 six two-day workshops were held, in which the teams from each region worked in parallel, transferring the regional concept to team level, clarifying their roles internally and agreeing rules of communication and cooperation.

THE "OCCUPATION AND A FAMILY" AUDIT.

In 2001 KfW was awarded the basic certificate as part of the "Occupation and a Family" audit. The basic audit covered family-oriented measures and more advanced targets for a family-conscious personnel policy. It was done with the support of the Hertie Charitable Foundation.

The targets set were based on two comprehensive surveys of all our staff. The concept of the family was very broad, encompassing singles and childless couples as well, so ultimately all the men and women on our staff, irrespective of their private lives. A key result of the surveys was the wish for more flexible working time and places. Beyond that, those questioned wanted to see more family-oriented management attitudes,

a family service and more equality of opportunity for women. A special concern was to analyse and eliminate the under-representation of women, which was evident, for example, in the potential analysis and in management functions.

Working groups evaluated the surveys and directly implemented practical recommendations from staff. The family service was set up and the rules on more flexible working time and places worked out.

With a family-conscious personnel policy KfW is increasing the motivation of its staff and also binding them to the bank during the time on family leave. At the same time it is making the bank more attractive in the labour market.

OUR STAFF ASSESS THEIR MANAGERS.

In autumn 2002 KfW launched the pilot phase of the KfW Management Feedback, a 270° all-round assessment for management staff. The procedure was developed by the Personnel Department in conjunction with our management staff.

Management staff can now face feedback from their staff, lower grade managers, their colleagues and internal "customers", as well as interface partners, and compare their verdict with their self-assessment. The focus is on the assessment from below by the staff. The first management staff have already been through feedback workshops with their teams. The aim is for managers and staff to optimize their cooperation and communication together. The managers can also utilize the insight gained in the workshops for their own individual development.

The staff give their assessment by filling out a questionnaire, which reflects the various aspects of management, cooperation and communication.

The pilot phase with 24 "pilots" and their teams will last until spring 2003. Then the instrument is to be offered to managers and their teams throughout the bank. That is another step in strengthening internal communication, and we hope the feedback will be seen as a positive opportunity. That is also in keeping with the Compass, KfW's new corporate model.

EXTENSIONS TO OUR BUILDINGS.

After less than 15 months construction work the East Arcade along Palmengartenstrasse in Frankfurt was ready for occupation in October 2002. It provides office space for around 300 staff in roughly 11,700 sq.m. spread over 7 storeys. The building also contains thirteen residential apartments. The new building has set new standards in economy, user comfort and ecology. The chief aim is energy consumption that will spare the environment and resources with pri-

mary energy requirements less than max. 100 KWH (m²a).

KfW also rented another building with space for about 600 staff. This was to make way for the coming thorough-going revitalization of the main building. The complex dates from the 1960s and no longer meets requirements in regard to building technology, energy consumption or office architecture. An important aim is to convert the premises to flexible forms of office use.

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

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

We have held regular talks on current personnel, social, organizational and economic is-

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

IN MEMORIAM.

We regret to announce the deaths in 2002 of staff members Heidemarie Hawer and Günter Rybar and of our pensioners Heinz-Rudi Biallas, Ernst Braun, Helmut Heinich, Marie Kiesler, Hans Möller, Dr. Peter Mohnhaupt, Fritz Müller, Franz

Peltzer, Karl-Heinz Porzezynska, Manfred Rolle, Elfriede Schröppe, Friedrich Stümpel and Klara Wende.

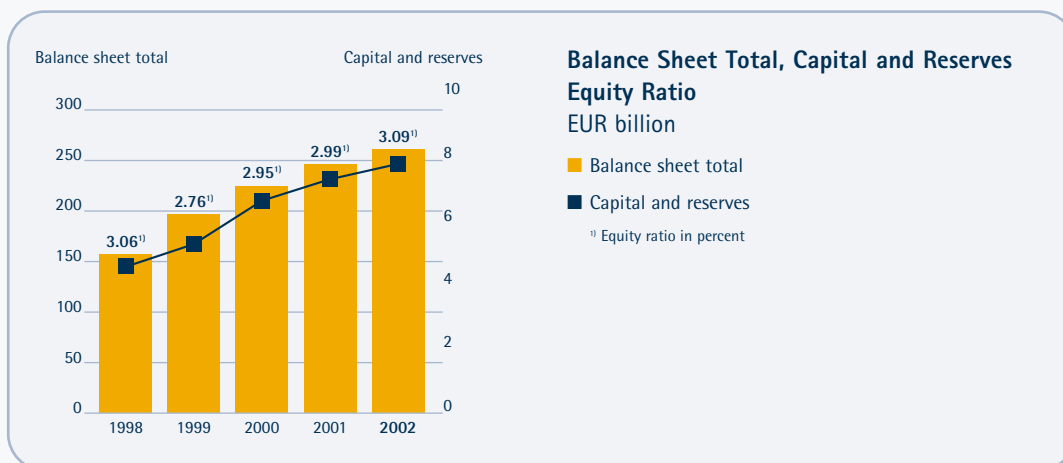
We shall always remember them with gratitude.

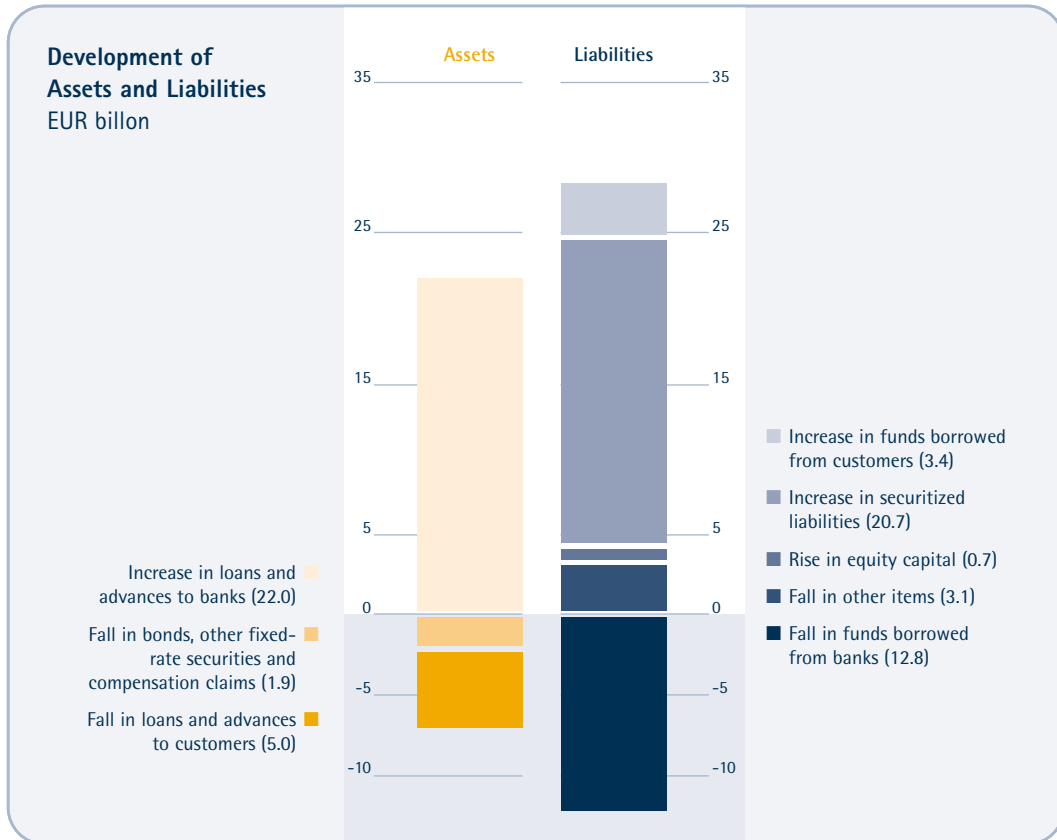
THE SITUATION OF KfW AND THE KfW GROUP IN 2002.

SURVEY.

KfW, with Finanzierungs- und Beratungsgesellschaft mbH (FuB), KfW International Finance Inc. (KfW Finance), DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) and KfW Beteiligungsholding GmbH, form the KfW Group. IKB is included in the consolidated financial statements as an associated enterprise. As before, the development of the Group described in this Report on the Situation is mainly determined by the financial statements of KfW.

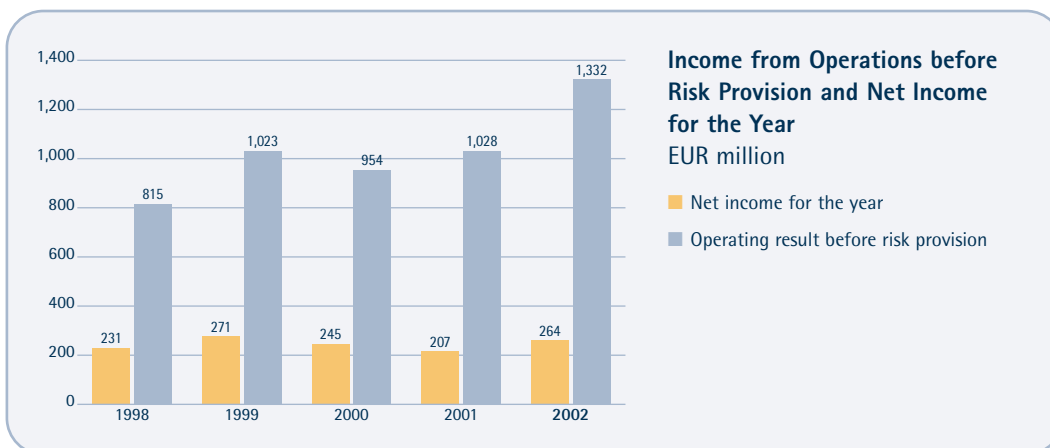
During the business year under review the Group balance sheet total was again increased markedly, rising by EUR 15.2 billion (6%) to EUR 260.9 billion. The continued dynamic growth in the domestic lending business, in particular, brought loans and advances to banks up by EUR 22.0 billion, or 20%. This was counteracted to some extent by the fall of EUR 5.0 billion or 5% in loans and advances to customers, which fell to EUR 85.8 billion, and the fall in bonds and other fixed-rate securities by EUR 1.9 billion (8%) to EUR 20.5 billion.





The results for the KfW Group were influenced by divergent developments in 2002. On the one hand a satisfactory operating result before risk provision was achieved for the Group at EUR 1,332 million, an increase of EUR 304 million over the previous year. The main contributory factor here was a rise of EUR 316 million in net interest income, bringing this item to EUR 1,525 million. On the other hand, as in previous years, careful account was taken of all identifiable

risks. Owing to the persistent weakness of the world and the domestic economies this is reflected in the item Risk provisions/Value adjustments, which is shown in the Financial Statements for 2002 at EUR 1,022 million, EUR 239 million higher than in the previous year. Despite these demands the KfW Group achieved a net income for the year of EUR 264 million, which is higher than the previous year's figure of EUR 207 million.

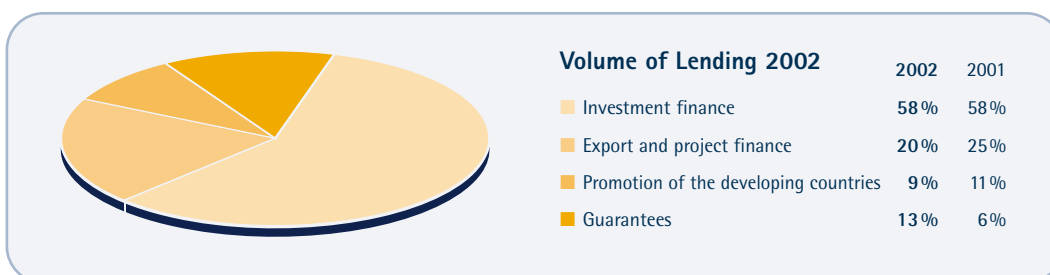


THE VOLUME OF LENDING.

The Group volume of lending (loans and advances, including loans on a trust basis and guarantees) rose to EUR 237.3 billion (previous year: EUR 210.0 billion). This increase is firstly due to an increase of EUR 13.8 billion in investment loans to the German economy, which as before account for 58% of the Group volume of lending. Secondly, guarantees rose by EUR 18.8 billion to EUR 31.7 billion, or 13% of the volume of lending, owing to the increase in securitization

transactions for loans to small and medium-sized firms and for housing construction.

The volume of export and project finance, on the other hand, which accounts for 20% of the volume of lending, fell by EUR 4.8 billion (9%), mainly as a result of the lower exchange rate for the US dollar. Loans to promote the developing countries (9% of the volume of lending) remained nearly constant.



The Situation of KfW and the KfW Group.

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

In 2002 as well KfW granted some borrowers easier repayment conditions by consolidating or re-scheduling loans on the basis of bilateral and multilateral consolidation agreements. The amounts on claims under guarantees totalled EUR 805 million. During the year under review non-performing loans and advances totalling EUR 293 million were written off, of which claims on domestic borrowers accounted for EUR 106 million.

KfW Group Volume of Lending 2002

EUR million and %

	Dec. 31, 2002	Dec. 31, 2001	Change	
	EUR million	EUR million	EUR million	%
Promotion of the German economy				
■ Investment finance	136,179	122,366	13,813	11
■ Export and project finance	47,102	51,922	-4,820	-9
Loans to promote the developing countries	22,292	22,633	-341	-2
Other items				
■ Other promotional loans	84	188	-104	-55
■ Guarantees	31,677	12,899	18,778	146
Total volume of lending	237,334	210,008	27,326	13
Of which loans on a trust basis	8,058	7,592	466	6

FUNDING.

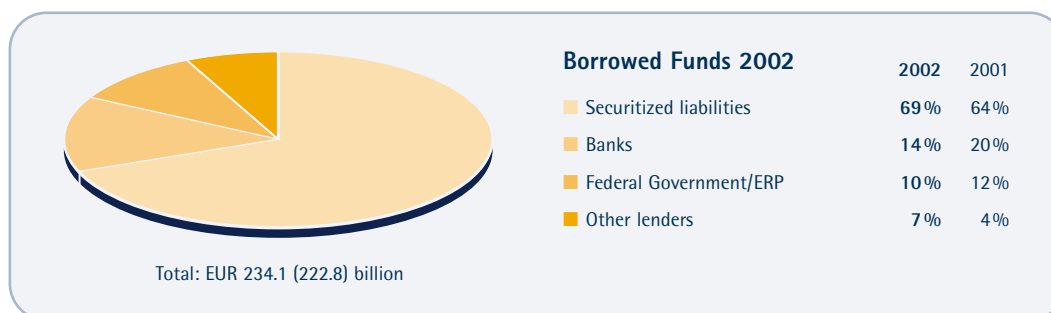
The main source of funds for the Group is the capital market. The borrowed funds were raised mainly by issuing bonds (69% of the borrowed funds); the amount rose by EUR 11.3 billion or 5%. Of this, EUR 65.1 billion was issued by KfW Finance. The share of funds borrowed from

banks and customers (without federal funds) fell from 24% to 21%. The funds provided from the federal budget and the ERP Special Fund amount to 10% of the borrowed funds (after 12% in the previous year).

Borrowed Funds 2002

EUR million and %

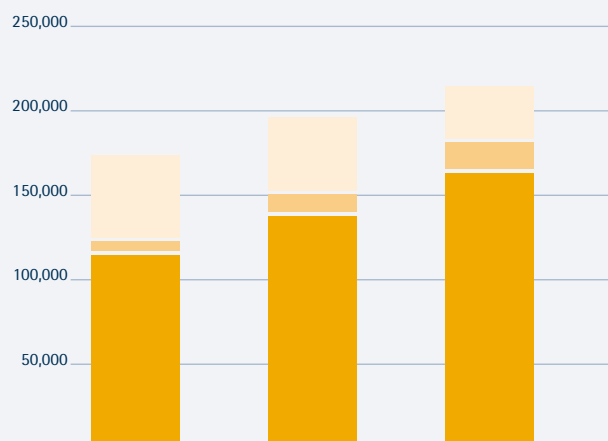
	Dec. 31, 2002	Dec. 31, 2001		Change
	EUR million	EUR million	EUR million	in %
Federal Republic of Germany				
■ ERP Special Fund	9,691	10,469	-778	-7
■ Federal budget	14,499	15,749	-1,250	-8
	24,190	26,218	-2,028	-8
Other creditors	15,568	10,099	5,469	54
Funds borrowed from customers	39,758	36,317	3,441	9
Funds borrowed from banks	31,757	44,557	-12,800	-29
Bond issues	109,304	99,712	9,592	10
Bearer securities (incl. medium-term notes and commercial paper)	50,334	39,094	11,240	29
Accrued interest	2,965	3,136	-171	-5
Bonds issued	162,603	141,942	20,661	15
Total	234,118	222,816	11,302	5



The share of funds raised in the money and capital markets remained almost unchanged from the previous year at 83% or EUR 209.9 billion after 83% or EUR 196.6 billion.

Funds raised in the Money and Capital Markets 2002

EUR million



	2000	%	2001	%	2002	%
Funds borrowed from banks	48,323	28	44,557	23	31,757	15
Funds borrowed from customers	6,332	3	10,099	4	15,568	7
Bonds issued	120,130	69	141,942	73	162,603	78

CHANGES IN OTHER MAJOR BALANCE SHEET ITEMS.

The holding of money market paper, bonds and debentures of other issuers has fallen by EUR 0.5 billion to EUR 17.6 billion. The majority of the securities are held to ensure constant liquidity for KfW. These securities are assigned to the Treasury securities portfolios, that are maintained mainly in euros, but to a small extent in US dollars and pounds sterling as well. The securities in the EUR portfolio can be used as collateral in funding operations with the European Central Bank, and this applies to 95% of the total portfolio of money market paper, bonds and debentures. As well as its Treasury securities portfolios KfW holds a portfolio of asset-backed securities

in connection with its loan securitization activities. Beside these portfolios, which it administers itself, KfW also holds externally administered special funds and money market funds, which are shown in the item Shares and other non-fixed rate securities. They total EUR 2.6 billion and are held for liquidity purposes.

For the purpose of supporting the price of its own issues KfW held EUR 2,845 million par value of its own bonds at the end of the year (EUR 4,027 million in the previous year). That was 2% of the bonds issued by the KfW Group.

The fall of EUR 555 million in Investments shown in the financial statements for KfW, and

the rise over the same period in Shares in associated enterprises (EUR 192 million) are due to the establishment of KfW Beteiligungsholding GmbH. Founding this enterprise enabled the bank to combine the KfW subsidiaries that are taxed and its share in IKB in one taxable holding. This was also in anticipation of the effects of the understanding between the Federal Government and the European Commission on the status of the special credit institutes in Germany.

The major part of the Prepaid expenses and deferred charges is interest expenditure for leas-

ing obligations in project finance applicable to the following period. The item also includes borrowing expenses (discounts and placing commissions) and interest on retentions.

Provisions have increased by EUR 29 million from the previous year. Of the allocations (EUR 184 million) EUR 61 million is provisions for staff pensions and EUR 113 million is mainly unsettled bank operating and payroll expenses. EUR 91 million was used while EUR 64 million was returned to income.

EQUITY CAPITAL.

The Group's capital and reserves (subscribed capital, reserves and fund for general bank risks in accordance with § 340g of the Commercial Code) amount to EUR 8.1 billion. The increase is EUR 699 million or 9%. It results from the allocation of EUR 34 million to the reserves from the ERP Special Fund, the allocation to the special reserves of KfW's net income for the year of EUR 220 million and the increase of EUR 45 million in the other reserves from profits through the inclusion of the results of the subsidiaries and the capital consolidation. EUR 400 million was

added to the fund for general bank risks in accordance with § 340g of the Commercial Code. KfW's capital and reserves are EUR 7.6 billion. The requirements on equity capital and reserves for banks operating internationally are still well fulfilled by KfW and the Group.

On July 1, 2002 KfW increased its capital with Group funds on the basis of the amended KfW Law. The subscribed capital rose by EUR 3.2 billion, which was deducted from the capital reserves and the reserves from profits, and is now EUR 3.8 billion, of which EUR 3.3 billion is paid in.

Equity Capital EUR million

	Dec. 31, 2002	Dec. 31, 2001	Change
KfW's subscribed capital	3,750.0	511.3	3,238.7
Outstanding contributions of KfW, not requested	-450.0	-434.6	-15.4
Capital reserves	451.1	1,738.5	-1,287.4
Reserves from the ERP Special Fund	559.1	524.7	34.4
Retained earnings			
a) Statutory reserve under § 10 (2) KfW Law	480.8	63.9	416.9
b) Statutory reserve under § 10 (3) KfW Law	1,141.1	3,273.6	-2,132.5
c) Statutory reserve under § 17 (4) DM Balance Sheet Law ¹⁾	47.6	47.6	0.0
d) Other retained earnings	512.0	467.8	44.2
Fund for general bank risks under § 340g Commercial Code	1,600.0	1,200.0	400.0
Total	8,091.7	7,392.8	698.9

¹⁾ To be adjusted by the special loss account shown on the Assets side in accordance with § 17 (4) of the D-Mark Balance Sheet Law (EUR 27.2 million)

EARNINGS POSITION.

Earnings Position EUR million and %

	2002	2001	Change	
	EUR million	EUR million	EUR million	%
Interest income ¹⁾	10,634	11,259	-625	-6
Interest expenses	9,109	10,050	-941	-9
Interest received, net	1,525	1,209	316	26
Commissions received, net	194	185	9	5
Net earnings on financial transactions ²⁾	-9	-6	-3	46
General administrative expenses	400	382	18	5
Other operating income and expenses	22	22	0	0
Income from current operations before risk provisions/valuations	1,332	1,028	304	30
Risk provisions/valuations, net ³⁾	-1,022	-783	-239	31
Income from current operations (= income on normal business transactions)	310	245	65	27
Contractual allocation of interest to the reserve from the ERP Special Fund	34	34	0	1
Taxes on income and profits	12	4	8	-
Net income for the year	264	207	57	28

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

²⁾ Balance of gains and losses on currency conversions.

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

The Group's income from current operations before risk provisions and valuations rose by EUR 304 million (30%) from the previous year to EUR 1,332 million (KfW: increase of EUR 263 million or 27% to EUR 1,231 million).

The main reason was the growth of EUR 282 million (25%) in net interest received by KfW. The growth was greatly helped by a favourable trend in interest rates. The net interest received includes DEG's net interest income of EUR 122 million (+EUR 24 million or 24%).

Net commissions received rose by EUR 9 million (5%) to EUR 194 million, mainly as a result of higher charges for guarantees (KfW: increase of EUR 16 million or 10% to EUR 165 million). The rise was counteracted to some extent by lo-

wer handling charges in the lending business and less remuneration for handling business for KfW-FuB with BvS, which declined during the year.

Administrative expenses rose by EUR 17 million (5%) to EUR 400 million (KfW: increase of EUR 31 million or 10% to EUR 334 million). This includes a rise in personnel expenditure of EUR 18 million (8%) to EUR 247 million as a result of the growth in the number employed and adjustments of wages and salaries for staff on collectively agreed rates and performance-related rates. Expenditure on provisions for pensions also rose, mainly as a result of the increases provided for in the collective wage agreement. General administrative expenses remained almost unchanged from the previous year at EUR 152 million.

Administrative Expenses 2002

EUR million and %

	2002	2001	Change	
	EUR million	EUR million	EUR million	%
Wages and salaries	174.8	169.2	5.6	3.3
Social security contributions	26.1	25.1	1.0	4.0
Expenses for pensions and support	46.4	35.5	10.9	30.7
Expenditure on personnel	247.3	229.8	17.5	7.6
Other administrative expenses	120.8	123.4	-2.6	-2.1
Depreciation on buildings and equipment	31.5	29.0	2.5	8.6
Expenditure on material and equipment	152.3	152.4	-0.1	-0.1
Administrative expenses	399.6	382.2	17.4	4.6

The Group's income from current operations was EUR 310 million (previous year: EUR 245 million) after changes in valuations and allocations to risk provisions totalling EUR 1,022 million. These were necessary particularly in view of the greater potential risk from the persistent weakness in the world and the national economies. Value adjustments were made to very conservative standards to cover address risks in the lending business, and an allocation was made to the fund for general bank risks in accordance with § 340g of the Commercial Code.

The Group's net income for the year is EUR 264 million compared with EUR 207 million in the previous year. KfW's net income for the year is EUR 220 million.

Risk provisions and valuations as a whole rose from the previous year by EUR 239 million and are shown at EUR 1,022 million. Risk provisions are calculated by KfW according to a risk moni-

toring system which covers all the risks recognizable on balance sheet date – mainly address risks. Conservative standards are always applied. Provision was made for expected losses in the form of individual and general adjustments. The fund for general bank risks, which is published, was also increased by EUR 400 million, bringing it to EUR 1,600 million. This ensures that KfW is also adequately secured against unexpected losses that can arise from the special risk structure of the domestic SME and participation financing and the long-term export finance business. At the same time, these steps also enable this part of risk provision to be clearly shown in anticipation of the planned transition of the Group accounting to the International Accounting Standards.

RISK STRUCTURE AND RISK CONTROL.

RISK CONTROL AND MANAGEMENT AS A KEY COMPETENCE.

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

The Group only enters into risks that appear to be acceptable in regard to the current and future earnings position and the probable course of the risks. Both "expected" and "unexpected losses" are taken into account. While the "expected loss" is a statistical figure based on past experience, and is to be covered by the standard risk costs included in the conditions for the loan, the figure for "unexpected losses" reflects the potential risk that – on the basis of a level of confidence that has to be determined – losses

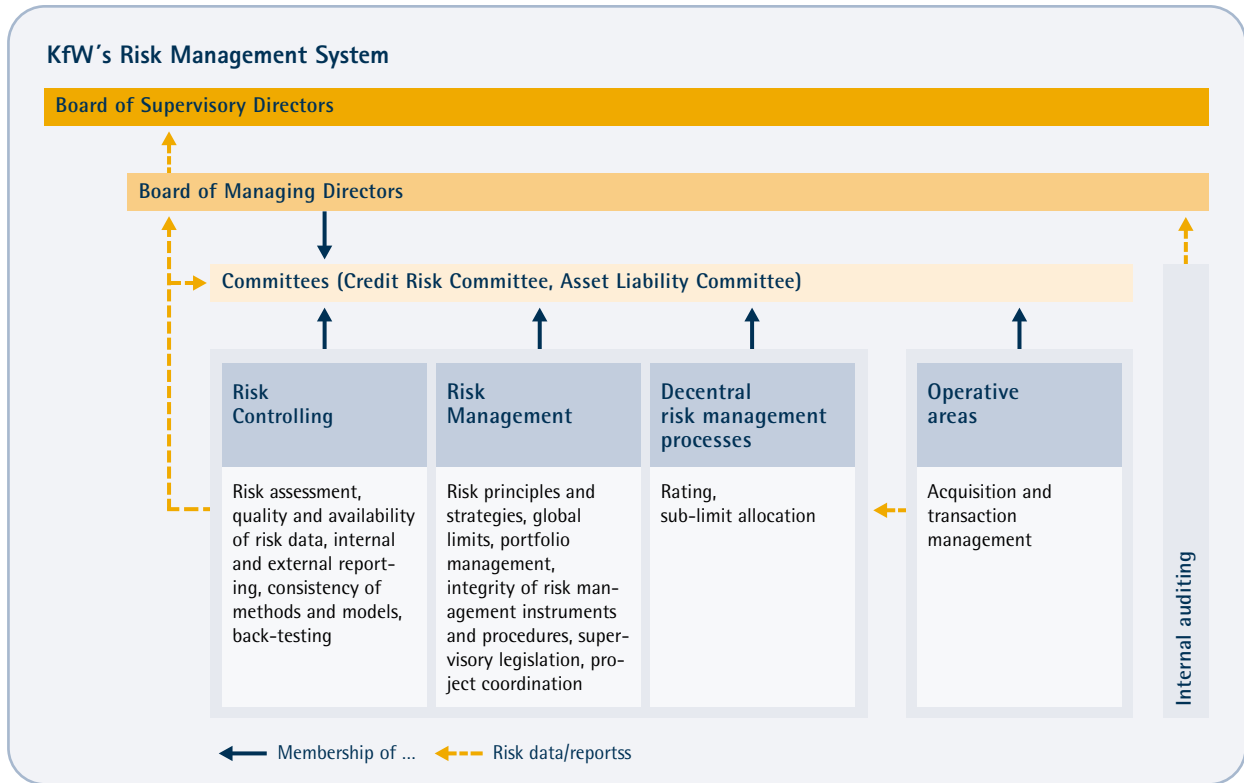
may be incurred beyond the expected level. Sufficient funds are maintained to cover that risk. All the risks entered into are assessed by conservative standards.

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

THE ORGANIZATION OF RISK MANAGEMENT AND CONTROLLING.

The Risk Management and Risk Controlling departments are organized separately in KfW, and they function separately from the departments that enter into the risks. The risk strategies and principles are being successively made uniform throughout the Group. The overall responsibility for risks in the Group is borne by the KfW Board of Managing Directors and reported in transparent mode to the supervisory organs – the Board of Supervisory Directors and the legal supervisors.

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



Reports are presented to the responsible organs in KfW at regular intervals on the bank's ability to bear risks. All the types of risk (address default, market prices, operational and other risks) are quantified on the level of the area of business and set against the available financial resources. Any possible risks of concentration in individual areas of business activity and on the overall portfolio level are shown in this context. In addition, the future risks on old business and the new business forecast are shown against the available financial resources in dynamic form.

The Credit Risk Committee builds up on this and assesses the existing scope for KfW's business policy. It works out any risk policy measures needed and decides on risk control measures in

the portfolio context. The Committee also provides a forum for an exchange of information between departments on business policy developments related to credit risks. The resultant consequences for the instruments of control are then agreed.

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

The requirements which the risk monitoring system has to meet are also influenced by legal regulations, which the Group applies voluntarily.

Chief among them is the Banking Law, which obliges banks to use appropriate instruments to steer, supervise and control risks. The requirements of the supervisory authorities on the ratio of equity to risk business are used as limiting factors, both for the volume of business and for determining the level of risk the Group can take. They are under constant supervision. The bank well fulfils the requirements in these regulations.

The minimum requirements for the operation of lending business (MaK) which were agreed in December 2002 and will apply from 2004 are also influential, especially on the organization of credit control. In anticipation of the implementation of the MaK the "Collateral Management" and "Portfolio Management" units were already separated out and turned into independent departments in 2002. An independent department to monitor higher risk commitments was also set up. The main aim of these organizational steps is to ensure that companies are going concerns, or, if they do fail, to limit the financial loss by involving this unit at an early stage with close monitoring by loan specialists. Other measures that become necessary for the Group as a result of the implementation of the MaK will be worked out and implemented during 2003.

In 2002 the on-going process of reorientation in credit risk management was continued. Important milestones for the further improvement of risk assessment and evaluation and for active risk steering on the basis of an economic capital concept were implemented. A major focus during the past year was redesigning the rating tools for participation financing and for domestic customer firms. The consistent revision of risk assessment throughout the Group improves the internal transparency of earnings, costs and risks,

and reflects the structure and special features of KfW's business. At the same time the requirements of Basel II and the minimum requirements for the operation of lending business (MaK) will be met.

For market risk control a new standard software was used last year for the first time, after all the relevant internal and external data was incorporated. It enables KfW to carry out up-to-date and regular value-at-risk calculations for the risks of changes in interest rates, and the bank can now simulate its exposure to risk of interest rate changes statically and dynamically, which puts its decisions, particularly its funding decisions, on an even more secure basis.

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

THE RISK OF ADDRESS DEFAULT.

By risk of address default is meant the danger of financial loss which can occur if the borrower or counterparty does not fulfil his obligations to the KfW Group. In the trading/derivatives business this is also known as counterparty risk. The risk of address default also covers the country risk (including the transfer risk).

As a promotional bank KfW deliberately enters into risks in a form that derives from its task of promotion. On the one hand this imposes limitations, in trading operations, for instance, but on the other it also involves taking on greater risks, as in participation finance. The control, supervision and monitoring of these risks, which are to be further extended, are performed by the Risk Controlling and Risk Management departments. The instruments and methods they use must take due account of the promotional aspects, in view of the special tasks of the KfW Group.

The risk of address default is limited as before by guarantees from public authorities and banks and the use of credit derivatives. However, KfW is now taking on greater risks in the domestic promotional lending business channelled through handling banks and in participation finance. In export and project finance a major focus is on finance in the transport sector (e.g. aircraft financing). The risks of default on securities investments and derivatives are limited by a restrictive choice of counterparties, all of whom are of first-class standing, and through agreements on collateral. The control of default risks is performed through internal rating procedures in which the country risks and individual corporate or project-related risks are assessed separately. For the assessment of standing KfW has a

computerized rating procedure specially designed for each customer segment or type of financing. The quantitative and qualitative features are weighted appropriately and transferred to a uniform master scale ranging from M1 (top rating) to M20 (default), which was introduced throughout the Group last year. An individual default probability is calculated for each master scale class and will be subject to regular backtesting. KfW's new master scale ensures compatibility with that of the big rating agencies.

In addition to risk reporting as part of the assessment of the risk eligibility of the bank as a whole the management is informed at short, regular intervals of the loan commitments that entail greater risk (the "watch list" and the "NPL list"), and so kept up to date.

The assessment of provision for acute risks was adjusted in 2002. The individual value adjustments are based on the non-performing loans at the bank's own risk¹⁾. The provision for latent risks is derived from the evaluation of the loans and advances, as part of the annual rating process.

Of EUR 39.3 billion loans and advances at the Group's own risk during the 2002 business year EUR 3.5 billion bore acute risk of default. The potential defaults on these have been conservatively assessed and specific provisions of EUR 1.8 billion have been made.

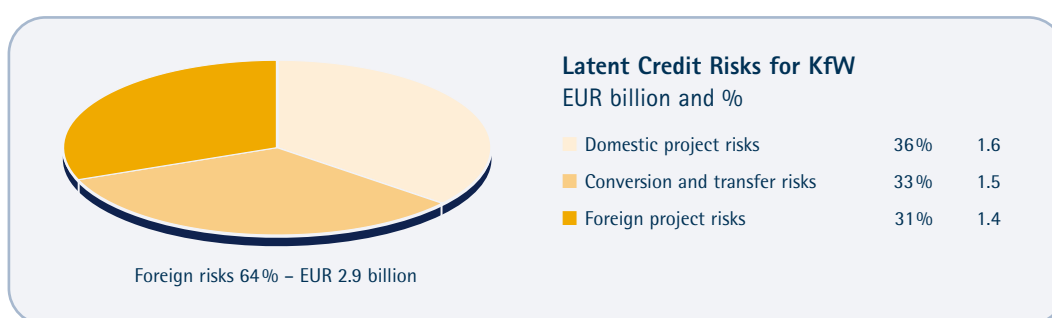
The outstanding loans on which the Group bears a political risk total EUR 37.6 billion. They include latent country risks valued at EUR 1.6 billion. Adjustments on participations by DEG amount to EUR 0.1 billion (42% of the gross investment). The country risk assessed is covered by special risk provision.

¹⁾These are based on the relevant current Basel II criteria (NPL rating classes M 19 and M 20).

Part of KfW's risk provision is disclosed in the balance sheet in the fund for general bank risks. This practice was continued in 2003, and the fund for general bank risks was increased with a further allocation of EUR 400 million, bringing it to EUR 1.6 billion. In view of the foreseeable

accounting according to International Accounting Standards (IAS), KfW is increasingly changing to disclosure of its risk provision.

All the loans and advances are conservatively assessed and adequate provision has been made for risks.



Last year KfW, in conjunction with a number of other banks, further developed its securitization activities. The aim of securitizing its loans is to take some of the risk of default on loans to small and medium-sized enterprises and for housing construction off the handling banks

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

LIQUIDITY RISK.

The liquidity risk is the risk that current or future payment obligations cannot be fulfilled in time or in full.

KfW counters the liquidity risk with a computerized liquidity control system. For detailed liquidity control an information system is available that shows all KfW's liquidity flows on the current date. The liquidity planning is on a daily, monthly and yearly basis. KfW also supervises its liquidity following the instructions in the KfW Law, and it regularly calculates the key liquidity figures in accordance with the rules of the new

Supervision Principle II of the Banking Law. The relevant liquidity figures are well above the minimum requirement. KfW has an adequate stock of liquid securities that as Category I securities are eligible as collateral with the European Central Bank, both for residual funding and for regular open market transactions. KfW also holds liquid US dollar securities as a liquid reserve.

In addition, a balanced medium and long-term liquidity structure is maintained as part of the asset/liability steering.

MARKET RISKS.

Market risks are risks of changes in interest rates and exchange rates and other price changes.

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

Loans in foreign currencies are funded in the same currency or secured through appropriate currency hedge instruments. Exchange rate risks only occur on foreign currency margins achieved in the lending business. Margins earned in foreign currencies are generally sold quickly.

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

Most of KfW's securities are held in a liquidity portfolio; they are shown as liquid assets and used as liquidity provision for the bank. However, the risks of price changes on these securities are largely avoided by the use of asset swaps.

The assessment and control of risks of changes in interest rates are performed in KfW by the Asset Liability Management Committee. During the past year the instruments for the calculation of the interest position were converted to the standard software RiskPro of IRIS AG. As well as the provision of up-to-date interest trend balance sheets in every currency the software also offers the possibility of assessing open positions to the value-at-risk concept and of simulations on the basis of different market scenarios and strategies.

To integrate the risk of changes in interest rates in the overall bank steering on the basis of the business capital concept KfW has been making regular value-at-risk calculations since last September. Interest rate risks are assessed using the historical simulation method and parallel to this with the Monte Carlo simulation.

For the transaction, handling and accounting of commercial business in accordance with the Minimum Requirements for the Operation of Commercial Transactions (MaH) the Board of Managing Directors has issued general conditions to market standards.

OPERATIONAL AND OTHER RISKS.

The control of operational risks is playing an increasingly important role in banking practice and in the development of the banking supervisory instruments (Basel II), beside the typical banking risks. As well as the general operating risks this category chiefly consists of risks that can arise from single events (fraud, computer faults, natural catastrophes etc.).

The operational risks in the Group are limited by an appropriate internal control system. The computer systems are being constantly developed and the business processes analysed and optimized. For risks that can occur owing to unforeseen events the Group has suitable emergency concepts (should the computers fail) and sufficient insurance cover (for fire and water damage etc.).

In 2002 the comprehensive "Operational Risks" project was continued. In particular, the preliminary work on building up a data bank in case of loss was started. One aim here is to create the basis to enable operational risks to be quantified with greater differentiation and reported

quickly in future, and to orient control more strongly to their causes.

The Group counters the legal risk by involving its own legal department in good time and by cooperating closely with external legal advisers in Germany and abroad. Contracts may only be signed on the basis of clear and correctly documented agreements (e.g. ISDA Standard Agreements).

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

OUTLOOK.

The business year for KfW will be dominated by implementing the decision announced jointly on December 10, 2002 by the Federal Ministry for Finance and the Federal Ministry of Economics and Labour to merge Deutsche Ausgleichsbank with KfW.

The programmes of the two banks for small and medium-sized enterprises and new businesses were already integrated in January 2003 under the designation "The Mittelstandsbank, or SME Bank. A Promotion Initiative by KfW and DtA". During the course of this year the SME Bank's offer of promotional funds will be re-

structured and even better adjusted to the needs of customers and business partners. An adequate offer of consultancy and finance is to be provided for every phase in the life cycle of a company.

The SME Bank will operate in the market under its own name and logo, with brochures and an Internet website. In future it will be the main contact for persons wishing to set up in business, small and medium-sized firms and commercial banks on all the questions of SME promotion.

To open up the promotion of new potentials the shares in DtA will be incorporated in KfW as fixed assets – assigned to present shareholders as special reserve. In this way no capital will be withdrawn from promotion of the SME sector, as would be the case if an acquisition price had been paid.

The legislative procedure to merge the two banks is to be concluded by the middle of this year. If it goes according to plan the merger will be completed by August 31, 2003 and backdated to January 1, 2003.

KfW will continue to offer major support to the economy, and to the environment and climate protection, in Germany in 2003, through its own contribution to promotion. The precise level of the total volume of promotion can at present only be estimated, owing to the changes entailed by the establishment of the SME bank. But we are expecting a volume of commitments of at least EUR 26 billion in the present promotional lending programmes of KfW and DtA alone.

KfW is assuming growing use of its securitization platform in 2003 as well. A major aim in future will be to establish multi-seller platforms, to make the securitization of credit risks more attractive to small and medium-sized banks. In addition, the PROMISE and PROVIDE programmes are to be opened further to European banks with suitable portfolios as well. KfW is also aiming to expand its existing range of securitization instruments further.

In export and project finance attention will continue to be focussed on financing German and European exports and direct investment in other European and non-European countries. In view of the weakness in the world economy a rather lower volume of new business is expected compared with the year under review.

Last year we started implementing the Understanding with the European Commission, and we expect to complete the main parts of it this year. They include the legal regulations and the corresponding adjustment of the KfW Law, which will be made in 2003, and organizational and business policy changes. The detailed planning is already completed, and the implementation phase, which builds up on it, will aim to group key areas of KfW's export and project finance in a separate department that is also separately managed. After a transition phase this field of KfW's business will also commence operating as a legally independent bank within the KfW Group on January 1, 2008.

The continuity of KfW's activities in export and project finance is thus secured, in the future legal organization as well. Like KfW, the new subsidiary will continue to help support the German economy, but it will also focus even more strongly on Europe. However, the necessary division of the equity capital between the parent bank and its subsidiary will narrow the scope for business in regard to regulation. Specifically focussed cooperation with IKB will be helpful during the changes to our business model. This was underpinned early this year with a special cooperation agreement that focuses on KfW's export area and IKB's structured financing. It is our wish to cooperate with IKB in the long term, not only in promotional business but in our export and project finance as well.

In any case, our cooperation with IKB will be "at arm's length", at the same conditions as our cooperation with other banks.

For the promotion of the developing countries KfW is expecting a volume of promotion of between EUR 1.5 and 1.8 billion for 2003, depending on the development in the world economy. DEG is planning to increase its new busi-

ness to EUR 0.5 billion. On January 1, 2003 a new structure for the regional departments was set up in KfW with the aim of improving the procedures and increasing efficiency. Under the new structure our presence on the spot in the developing countries will also be strengthened with eight more foreign offices for KfW and one for DEG.

In funding KfW is expecting to require between EUR 45 and 50 billion for 2003. The two benchmark programmes will be continued in 2003 as well. Under the € Benchmark Programme more bonds to a total volume of EUR 15 billion will be issued. For the US dollar market issues totalling at least USD 6 billion are planned for our US\$ programme.

We will continue to unify our capital market activities. For this purpose we began last year to issue private placements in US dollars as well directly through KfW. In 2003 this will also apply to global issues in USD. Only the US Commercial Paper Programme will still be issued through KfW International Finance.

The greater risks assumed by KfW in the context of the general economic situation in Germany and worldwide will lead to growing risk of default in the next few years as well. KfW is well armed for this development with its existing steering instruments, that are constantly being improved, and its conservative risk policy.

KfW is continuing its project to reorient credit risk control in order to optimize risk control and in view of the changes to be expected in the supervision requirements. The aim of the project is a more transparent and consistent account of the credit risks through all levels and areas of the bank, taking into account the special features of KfW's business.

The main focus of the project in 2003 will be on integrating the newly developed risk figures in the planning, reporting and intervention process, developing a model loan portfolio and working out a modern limit management system.

For the current business year integrating DtA in KfW's risk management systems will also be a major focus.

The operating risks are being constantly minimized through more investment in developing the computer systems and by optimizing processes. A more differentiated quantification of the operational risks will also be undertaken as part of an independent project.

In steering the market price risks the standard software that has now been introduced and is generally recognized enables an up-to-date market assessment of the entire bank to be made, while a modern range of instruments to steer risks of changes in interest rates and exchange rates can be built up on it.

The KfW Group is expecting a satisfactory result for 2003 as well, that will permit appropriate allocations to be made to both risk provisions and the special reserves.

FINANCIAL STATEMENTS.

Balance Sheet of Kreditanstalt für Wiederaufbau as per December 31, 2002.

Assets

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Cash reserves							
a) Cash in hand			147			0	
b) Balances with central banks			25,459			26	
of which: with the Deutsche Bundesbank	25,459				26		
c) Balances with postal giro centres			0	25,606		0	26
2. Loans and advances to banks							
a) At call			25,445			21	
b) Others			128,816,484	128,841,929		106,839	106,860
3. Loans and advances to customers				85,467,583			90,082
of which: secured with mortgages	0				0		
of which: municipal loans	20,332,511				19,161		
4. Bonds and other fixed-rate securities							
a) Money market paper							
aa) Of public issuers		0				0	
of which: eligible as collateral with the Dt. Bundesbank	0				0		
ab) Of other issuers		81,665	81,665			422	
of which: eligible as collateral with the Dt. Bundesbank	0				0		
b) Bonds and debentures							
ba) Of public issuers		2,582,457				2,434	
of which: eligible as collateral with the Dt. Bundesbank	2,475,995				2,310		
bb) Of other issuers		16,615,231	19,197,688			17,235	
of which: eligible as collateral with the Dt. Bundesbank	14,196,336				14,062		
c) KfW's own bond issues			1,236,822	20,516,175		2,304	22,395
Par value	1,170,359				2,102		
5. Shares and other non-fixed rate securities				11,620,965			10,934
6. Investments				13,009			568
of which: in banks	8,000				565		
of which: in financial services institutions	0				0		
7. Shares in affiliated enterprises				518,665			326
of which: in banks	306,852				315		
of which: in financial services institutions	0				0		
8. Assets on a trust basis				7,886,607			7,408
of which: loans on a trust basis	7,884,119				7,405		
9. Compensation claims on public authorities including bonds from their conversion				193,433			257
10. Intangible assets				7,740			8
11. Fixed assets				443,733			423
12. Other assets				39,023			433
13. Prepaid expenses and deferred charges				4,072,331			4,694
14. Special loss account consisting of provisions under § 17 (4) of the D-Mark Balance Sheet law				27,237			34
Total assets				259,674,036			244,448

Liabilities and Shareholders' Equity

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Funds borrowed from banks							
a) At call			1,051,013			868	
b) With agreed terms or periods of notice			30,485,085	31,536,098	43,485	44,353	
2. Funds borrowed from customers							
a) Savings deposits			0		0		
b) Other funds							
ba) At call		144,013			267		
bb) With agreed terms or periods of notice		104,605,606	104,749,619	104,749,619	103,292	103,559	
3. Securitized liabilities							
a) Bond issues			97,497,507		74,529		
b) Other securitized liabilities			0	97,497,507	0	74,529	
4. Liabilities on a trust basis				7,886,607			7,408
of which: loans on a trust basis	7,884,119				7,405		
5. Other liabilities				3,452,670			156
6. Deferred income				6,291,063			6,845
7. Accrued estimated liabilities							
a) Accrued pension liabilities and similar obligations			469,202		425		
b) Others			171,323	640,525	202	627	
8. Obligatory charges under the D-Mark Balance sheet Law				40,254			46
9. Fund for general bank risks				1,600,000			1,200
10. Equity capital							
a) Subscribed		3,750,000			511		
Without outstanding contributions		(450,000)			(435)		
Paid-in subscribed capital			3,300,000				
of which: requested	0						
b) Capital reserves			451,051		1,738		
Allocation	0				0		
c) Reserve from the ERP Special Fund			559,090		525		
Contractual appropriation of interest	34,418				34		
d) Retained earnings							
da) Statutory reserve under § 10 (2) of the KfW Law		480,817			64		
db) Special reserve under § 10 (3) of the KfW Law		1,141,128			3,274		
dc) Special reserve under § 17 Abs. 4 of the D-Mark Balance Sheet Law		47,607	1,669,552	5,979,693	48	5,725	
Total liabilities				259,674,036			244,448
1. Contingent liabilities							
a) On bills discounted and charged		0			0		
b) On guarantees		31,659,669			12,888		
c) Liability under collateral provided for third party liabilities		0	31,659,669		0	12,888	
2. Other obligations							
a) Repurchase obligations on non-genuine repurchase transactions		0			0		
b) Placing and underwriting obligations		0			0		
c) Irrevocable loan commitments		30,397,746	30,397,746		24,936	24,936	

Statement of Income of Kreditanstalt für Wiederaufbau for the Period from January 1 to December 31, 2002.

Expenses

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest expenses				9,096,226			10,029
2. Contractual appropriation of interest to reserve from the ERP Special Fund				34,418			34
3. Commissions and similar charges payable				245,186			228
4. Net expenditure on financial transactions				10,113			5
5. General administrative expenses							
a) Expenditure on personnel							
aa) Salaries and wages		145,114				136	
ab) Social security contributions, expenditure on pensions and support		60,358	205,472			49	
of which: for pensions	38,910				28		
b) Other administrative expenses			98,669	304,171		91	276
6. Depreciation and value adjustments on intangible assets and fixed assets				29,706			27
7. Other operating expenses				3,366			9
8. Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses				976,187			749
Of which: Allocation to fund for general bank risks	400,000				500		
9. Write-downs on the special loss account under § 17 (4) of the D-Mark Balance Sheet Law				6,271			0
10. Net income				220,252			186
Total expenses				10,925,896			11,543

Income

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest income from							
a) Lending and money market transactions			9,744,939			10,246	
b) Fixed-interest securities and debt register claims			737,338	10,482,277		859	11,105
2. Current income from							
a) Shares and other non-fixed rate securities			2,860			32	
b) Investments			348			1	
c) Shares in affiliated enterprises			5,481	8,689		4	37
3. Commissions and similar service charges earned				410,159			378
4. Earnings on allocations to investments, shares in affiliated enterprises and securities treated as fixed assets				6,519			1
5. Other operating income				18,252			22

Total income

10,925,896

11,543

Balance Sheet of the KfW Group as per December 31, 2002.

Assets

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Cash reserves							
a) Cash in hand			151			0	
b) Balances with central banks			25,459			26	
of which: with the Deutsche Bundesbank	25,459				26		
c) Balances with postal giro centres			0	25,610		0	26
2. Loans and advances to banks							
a) At call			43,470			29	
b) Others			129,236,785	129,280,255		107,297	107,326
3. Loans and advances to customers				85,775,469			90,767
of which: secured with mortgages	0				0		
of which: municipal loans	20,332,521				19,161		
4. Bonds and other fixed-rate securities							
a) Money market paper							
aa) Of public issuers		0				0	
of which: eligible as collateral with the Deutsche Bundesbank	0				0		
ab) Of other issuers		81,665	81,665			422	
of which: eligible as collateral with the Deutsche Bundesbank	0				0		
b) Bonds and debentures							
ba) Of public issuers		2,582,457				2,434	
of which: eligible as collateral with the Deutsche Bundesbank	2,475,995				2,310		
bb) Of other issuers		14,979,759	17,562,216			15,218	
of which: eligible as collateral with the Deutsche Bundesbank	14,209,246				14,080		
c) The Group's own bond issues			2,885,204	20,529,085		4,339	22,413
Par value	2,844,916				4,027		
5. Shares and other non-fixed rate securities				11,620,965			10,934
6. Investments				193,773			197
of which: in banks	66,097				60		
of which: in financial services institutions	0				0		
7. Investments in associated enterprises				552,618			556
of which: in banks	552,618				556		
of which: in financial services institutions	0				0		
8. Shares in affiliated enterprises				11,854			12
of which: in banks	0				0		
of which: in financial services institutions	0				0		
9. Assets on a trust basis				8,143,635			7,682
of which: loans on a trust basis	8,058,484				7,592		
10. Compensation claims on public authorities including bonds from their conversion				193,433			257
11. Intangible assets				8,448			9
12. Fixed assets				452,767			433
13. Other assets				46,941			437
14. Prepaid expenses and deferred charges				4,072,405			4,694
15. Special loss account consisting of provisions under § 17 (4) of the D-Mark Balance Sheet Law				27,237			34
Total assets				260,934,495			245,777

Liabilities and Shareholders' Equity

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Funds borrowed from banks							
a) At call			1,003,440			808	
b) With agreed terms or periods of notice			30,753,839	31,757,279	43,749	44,557	
2. Funds borrowed from customers							
a) Savings deposits			0		0		
b) Other funds							
ba) At call		142,972			279		
bb) With agreed terms or periods of notice		39,615,069	39,758,041	39,758,041	36,038	36,317	36,317
3. Securitized liabilities							
a) Bond issues			162,603,487			141,942	
b) Other securitized liabilities			0	162,603,487		0	141,942
4. Liabilities on a trust basis				8,143,635			7,682
of which: loans on a trust basis	8,058,484				7,592		
5. Other liabilities				3,495,192			269
6. Deferred income				6,291,222			6,846
7. Accrued estimated liabilities							
a) Accrued pension liabilities and similar obligations			512,702			464	
b) Accrued tax liabilities			19,317			10	
c) Others			221,650	753,669		251	725
8. Obligatory charges under the D-Mark Balance Sheet Law				40,254			46
9. Fund for general bank risks				1,600,000			1,200
10. Equity capital							
a) Subscribed		3,750,000				511	
Without outstanding contributions		(450,000)				(435)	
Paid-in subscribed capital			3,300,000				
b) Capital reserves			451,051			1,738	
Allocation	0				0		
c) Reserve from the ERP Special Fund			559,090			525	
Contractual appropriation of interest	34,418				34		
d) Retained earnings							
da) Statutory reserve under § 10 (2) of the KfW Law		480,817				64	
db) Special reserve under § 10 (3) of the KfW Law		1,141,128				3,274	
dc) Special reserve under § 17 (4) of the D-Mark Balance Sheet Law		47,607				48	
dd) Other retained earnings		512,023	2,181,575	6,491,716		468	6,193
Total liabilities				260,934,495			245,777
1. Contingent liabilities							
a) On bills discounted and charged		0				0	
b) On guarantees		31.677.171				12.899	
c) Liability under collateral provided for third party liabilities		0	31.677.171			0	12.899
2. Other obligations							
a) Repurchase obligations on non-genuine repurchase transactions		0				0	
b) Placing and underwriting obligations		0				0	
c) Irrevocable loan commitments		30.749.775	30.749.775			25.264	25.264

Statement of Income of the KfW Group for the period from January 1 to December 31, 2002.

Expenses

	2002				2001		
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest expenses				9,108,636			10,050
2. Contractual appropriation of interest to reserve from the ERP Special Fund				34,418			34
3. Commissions and similar charges payable				245,296			228
4. Net expenditure on financial transactions				8,781			6
5. General administrative expenses							
a) Expenditure on personnel							
aa) Salaries and wages		174,750				169	
ab) Social security contributions and expenditure on pensions and support		72,564	247,314			61	
of which: for pensions	46,399				35		
b) Other administrative expenses			120,847	368,161		123	353
6. Depreciation and value adjustments on intangible assets and fixed assets				31,505			29
7. Other operating expenses				3,798			10
8. Write-downs of and value adjustments on loans and certain securities and increase of allowances for possible loan losses				1,005,250			787
of which: allocation to fund for general bank risks	400,000				500		
9. Write-downs of and value adjustments on investments, shares in affiliated enterprises and securities treated as fixed assets				9,907			-
10. Write-downs on the special loss account under § 17 (4) of the D-Mark Balance Sheet Law				6,271			0
11. Taxes on earnings and income				11,909			4
12. Net income				264,437			207
Total expenses				11,098,369			11,708

Income

				2002			2001
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR million	EUR million	EUR million
1. Interest income from							
a) Lending and money market transactions			9,846,167			10,358	
b) Fixed-interest securities and debt register claims			739,848	10,586,015		862	11,220
2. Current income from							
a) Shares and other non-fixed rate securities			2,860			32	
b) Investments			25,490			8	
c) Shares in affiliated enterprises			0			0	
d) Investments in associated enterprises			19,571	47,921		0	40
3. Commissions and similar service charges earned				439,282			413
4. Earning on allocations to investments, shares in affiliated enterprises and securities treated as fixed assets				-			4
5. Other operating income				25,151			31

Total income

11,098,369

11,708

ANNEX AND GROUP ANNEX.

THE CONSOLIDATED COMPANIES AND THE PRINCIPLES OF CONSOLIDATION.

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

The annual financial statements for the individual enterprises in the Group were drawn up in accordance with the accounting and valuation methods applying to KfW. Loans and ad-

vances and liabilities, and income and expenditure between the consolidated enterprises were netted. The first consolidation was made by the book value method with the values stated on the Group's balance sheet date.

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

The annual financial statements for KfW International Finance Inc. are drawn up in foreign currency and the amounts were converted at the official middle rate on December 31, 2002.

ACCOUNTING AND VALUATION METHODS.

The Financial Statements for 2002 for Kreditanstalt für Wiederaufbau and for the Group have been drawn up in accordance with the requirements of the Commercial Code, the Ordinance on Bank Accounting and the Law Concerning the Kreditanstalt für Wiederaufbau. The special provisions of the D-Mark Balance Sheet Law have also been observed. In the Financial Statements the reserves from the ERP Special Fund and the contractual allocation of interest earnings to these are now shown separately, as is the allocation to the Capital Reserves, which is shown as a memo item. Statements on individual items in the Balance Sheet, which may be made either in the Balance Sheet or an Annex, are given in the Annex.

In contrast to last year's Financial Statements, this year the outstanding contributions to the equity capital are not shown on the assets side but under subscribed capital. The previous year's figures have been adjusted accordingly.

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

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

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

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

Provisions for pensions and other obligations were valued in accordance with actuarial principles on the basis of "Richttafeln für die Pensionsversicherung" (Mortality and Disability Tables) of 1998 by Dr. Klaus Heubeck. For KfW the part-value method was used, with interest rates for accounting purposes of 3% and 6% respectively. The other provisions are shown at their expected recourse value.

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

NOTES ON THE ASSETS.

Loans and Advances to Banks

EUR million

	At call	Remaining term				Pro rata interest	Total
		up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years		
Dec. 31, 2002 KfW	25	12,722	8,150	31,594	73,650	2,701	128,842
Dec. 31, 2002 Group	43	12,857	8,211	31,750	73,697	2,722	129,280
Dec. 31, 2001 KfW	21	6,395	4,808	28,586	64,528	2,522	106,860
Dec. 31, 2001 Group	29	6,542	4,870	28,753	64,586	2,546	107,326
						KfW	Group
<i>of which to:</i>							
<i>Affiliated enterprises</i>						26	0
<i>Enterprises in which a participation is held</i>						0	6,363
<i>Without handling banks' liability</i>						2,154	2,154
<i>Minor assets</i>						0	0

Loans and Advances to Customers

EUR million

	With no fixed term	Remaining term				Pro rata interest	Total
		up to 3 months	more than 3 months to 1 year	more than 1 year to 5 years	more than 5 years		
Dec. 31, 2002 KfW	0	3,144	6,263	28,979	45,300	1,781	85,467
Dec. 31, 2002 Group	0	3,169	6,351	29,390	45,078	1,787	85,775
Dec. 31, 2001 KfW	0	2,605	6,597	30,530	48,575	1,775	90,082
Dec. 31, 2001 Group	0	2,644	6,696	30,950	48,691	1,786	90,767
						KfW	Group
<i>of which to:</i>							
<i>Affiliated enterprises</i>						414	42
<i>Enterprises in which a participation is held</i>						0	108
<i>Minor assets</i>						1,008	1,008

BONDS AND OTHER FIXED-INTEREST SECURITIES.

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

Due the following year
EUR million

Balance sheet date	Dec. 31, 2002 KfW	Dec. 31, 2001 KfW	Dec. 31, 2002 Group	Dec. 31, 2001 Group
Money market paper, bonds	3,361	4,465	3,185	4,168
Par value	3,310	4,464	3,141	4,171
Own bond issues	116	1,263	300	1,565
Par value	116	1,255	293	1,553
Total	3,477	5,728	3,485	5,733
Par value	3,426	5,719	3,434	5,724

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

EUR million

	KfW	Group
Affiliated enterprises	1,767	0
Enterprises in which KfW/the KfW Group holds a participation	0	12

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

EUR million

	KfW	Group
Listed securities	19,864	19,877
Unlisted securities	652	652
Marketable securities	20,516	20,529

SECURITIES TRANSACTIONS UNDER REPURCHASE AGREEMENTS.

In sell & buy back transactions securities to the book value of EUR 1,821 million were repurchased.

FIXED ASSETS.

Fixed Assets as per December 31, 2002 KfW

EUR thousand

	Changes ¹⁾ 2002 (7)	Residual book value as per Dec. 31, 2002 (8)	Residual book value as per Dec. 31, 2001 (9)
Investments	-555,425	13,009	568,434
Shares in affiliated enterprises	192,195	518,665	326,470
Securities treated as fixed assets	-1,141,596	5,770,733	6,912,329
Total	-1,504,826	6,302,407	7,807,233

	Acquisition/ production costs ²⁾ (1)	Inflows (2)	Outflows (3)	Transfers (4)	Allocations (5)	Write-downs/ Adjustments		Residual book value as per Dec. 31, 2002 (8)	Residual book value as per Dec. 31, 2001 (9)
						Total (6)	2002 (7)		
Intangible assets	24,052	5,696	928	0	0	21,080	5,478	7,740	8,037
Tangible assets ³⁾	522,419	48,050	6,128	0	0	120,608	24,228	443,733	422,686
Sum	546,471	53,746	7,056	0	0	141,688	29,706	451,473	430,723
Total								6,657,891	8,237,956

¹⁾ Including price changes

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

³⁾ Of which as per December 31, 2002: - total value of land and buildings used for the bank's activities EUR 423,706,000
- total value of office furniture and equipment EUR 20,527,000

The reduction in investment is due the incorporation of the shares in IKB in KfW Beteiligungs-
holding.

Fixed Assets as per December 31, 2002 Group
EUR thousand

	Changes ¹⁾ 2002 (7)	Residual book value as per Dec. 31, 2002 (8)	Residual book value as per Dec. 31, 2001 (9)
Investments	-7,196	746,391	753,587
Shares in affiliated enterprises	0	11,854	11,854
Securities treated as fixed assets	-1,141,596	5,770,733	6,912,329
Total	-1.148,792	6,528,978	7,677,770

	Acquisition/ production costs ²⁾ (1)	Inflows (2)	Outflows (3)	Transfers (4)	Allocations (5)	Total (6)	Write-downs/ Adjustments	Residual book value as per Dec. 31, 2002 (8)	Residual book value as per Dec. 31, 2001 (9)
							2001 (7)		
Intangible assets	26,488	6,062	928	0	0	23,174	5,962	8,448	8,863
Tangible assets ³⁾	544,137	48,572	7,374	0	0	132,568	25,543	452,767	432,641
Sum	570,625	54,634	8,302	0	0	155,742	31,505	461,215	441,504
Total								6,894,204	8,119,274

¹⁾ Including price changes

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

³⁾ Of which as per December 31, 2001: – total value of land and buildings used for the Group's activities EUR 430,068,000
– total value of office furniture and equipment EUR 22,310,000

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

The book value of the marketable bonds not valued at the lower of cost or market and included in the item "Bonds and Other Fixed-rate Securities" is EUR 5,396 million.

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

EUR million

	KfW	Group
Listed securities	9,044	9,044
Unlisted securities	2,577	2,577
Marketable securities	11,621	11,621

The holding of securities for which no collateral transactions with counterparties of first-class standing have been agreed is valued at the lower of cost or market.

Information on Equity Investments

EUR thousand and %

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

Name and domicile of company	Share held in %	Equity capital ¹⁾ EUR thousand	Net income ¹⁾ EUR thousand
1. DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne	100.0	894,605	37,880
2. Finanzierungs- und Beratungsgesellschaft mbH, Berlin	100.0	10,549	5,436
3. KfW International Finance Inc., Delaware, USA	100.0	10 ²⁾	0 ²⁾
4. KfW Beteiligungsholding GmbH, Frankfurt am Main	100.0	215,802	15,802
5. IKB Deutsche Industriebank AG, Düsseldorf	34.1	1,165,087 ³⁾	96,110 ³⁾

¹⁾ As per Dec. 31, 2002

²⁾ Converted at the rate on Dec. 31, 2002 (EUR 1 = USD 1.0487)

³⁾ As per March 31, 2002

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

The item "Investments" includes:

EUR thousand

	KfW	Group
Listed securities	102	591,011
Unlisted securities	8,000	8,000
Marketable securities	8,102	599,011

Assets on a Trust Basis

EUR million

	KfW		Group	
Loans and advances to banks				
a) At call	160		161	
b) Other loans and advances	594	754	744	905
Loans and advances to customers		7,132		7,156
Investments		1		83
Total		7,887		8,144

OTHER ASSETS.

The item "Other Assets" consists mainly of pro rata interest on foreign exchange swaps to the amount of EUR 19.7 million.

PREPAID EXPENSES AND DEFERRED CHARGES.

The difference contained in the item "Prepaid Expenses and Deferred Charges" between the higher repayment amount and the lower issue amount of liabilities is EUR 771 million.

NOTES ON LIABILITIES.

Maturities Structure of Borrowed Funds

EUR million

	At call	Remaining term				Pro rata interest	Total
		Up to 3 months	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years		
Funds borrowed from banks with agreed term or period of notice							
KfW	1,051	3,024	4,179	9,504	10,804	2,974	31,536
Group	1,004	3,024	4,218	9,690	10,843	2,978	31,757
<i>as per Dec. 31, 2001 KfW</i>	868	5,900	3,610	13,211	18,067	2,697	44,353
<i>as per Dec. 31, 2001 Group</i>	808	5,900	3,611	13,441	18,096	2,701	44,557
Funds borrowed from customers: – other borrowed funds with agreed term or period of notice							
KfW	144	9,595	11,102	47,559	34,227	2,123	104,750
Group	143	1,203	2,076	11,353	24,108	875	39,758
<i>as per Dec. 31, 2001 KfW</i>	267	7,215	12,672	48,412	32,762	2,230	103,558
<i>as per Dec. 31, 2001 Group</i>	279	2,231	2,378	11,067	19,643	719	36,317
KfW	1,195	12,619	15,281	57,063	45,031	5,098	136,286
Group	1,147	4,227	6,294	21,043	34,951	3,853	71,515
in %							
KfW	1	9	11	42	33	4	100
Group	2	6	9	29	49	5	100
Due the following year							
			KfW	Group			
Securitized liabilities							
– bonds issued							
			12,537	29,961			
<i>as per December 31, 2001</i>							
			15,937	31,250			

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

	Securitized and non-securitized liabilities			
	To affiliated enterprises		To enterprises in which a participation is held	
	KfW	Group	KfW	Group
Funds borrowed from banks	48	0	0	2
Funds borrowed from customers	65,115	0	0	0
Securitized liabilities	0	0	0	443 ¹⁾
Total	65,163	0	0	445

¹⁾ as far as can be ascertained

Liabilities on a Trust Basis
EUR million

	KfW		Group	
Funds borrowed from banks				
a) At call	6		6	
b) With agreed term or period of notice	87	93	87	93
Funds borrowed from customers				
a) Savings deposits	0		0	
b) Other liabilities				
ba) At call	881		881	
bb) With agreed term or period of notice	6,912	7,793	7,087	7,968
Investments		1		83
Total		7,887		8,144

OTHER LIABILITIES.

The "Other Liabilities" are mainly the difference on the conversion of foreign currency positions secured with swaps to the amount of EUR 3.3 billion.

DEFERRED INCOME.

This item includes discounts on claims totalling EUR 574 million.

EQUITY CAPITAL.

The Group's Equity Capital
 EUR million

	Dec. 31, 2001	Allocation 2002	Dec. 31, 2002
KfW's subscribed capital	511.3	3,238.7	3,750.0
Without outstanding contributions	-434.6	-15.4	-450.0
Capital reserves	1,738.5	-1,287.4	451.1
Reserve from the ERP Special Fund	524.7	34.4	559.1
Retained earnings			
a) Statutory reserve under § 10 (2) KfW Law	63.9	416.9	480.8
b) Special reserve under § 10 (3) KfW Law	3,273.6	-2,132.5	1,141.1
c) Special reserve under § 17 (4) DM Balance Sheet Law	47.6	0.0	47.6
d) Other retained earnings	467.8	44.2	512.0
Total	6,192.8	298.9	6,491.7

The Group's net income for the year is EUR 264 million and an amount corresponding to KfW's net income for the year of EUR 220 million was allocated to the special reserve (EUR 168 million) in accordance with § 10 (2) and (3) of the KfW Law and to the special reserve (EUR 52 million). The net income for the year of EUR 44 million achieved by the consolidated subsidiaries was allocated to the other retained earnings. KfW's equity capital is EUR 5,980 million.

OTHER REQUIRED NOTES ON THE LIABILITIES.

CONTINGENT LIABILITIES.

The Group's liabilities under guarantees total EUR 31,677 million. Of the total amount as per Dec. 31, 2002 EUR 27,454 million was credit default swaps, EUR 4,218 million was guarantees on loans (of which guarantees for aircraft finance totalled EUR 1,309 million, guarantees on special loans EUR 844 million and guarantees for housing construction EUR 682 million). EUR 5 million were letters of credit. The new guarantees for third party risks given in 2002 amounted to EUR 19,369 million; they result mainly from the assumption of third party risks of credit default in connection with securitization to a total of EUR 18,793 million. Altogether EUR 167 million was redeemed.

OTHER OBLIGATIONS.

The Group's irrevocable loan commitments total EUR 30,750 million, of which EUR 13,624 million is export and project finance, EUR 10,844 million is investment finance, EUR 4,147 million is loans to promote the developing countries and EUR 2,135 million is guarantees.

NOTES ON THE STATEMENT OF INCOME.

GEOGRAPHICAL MARKETS.

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

OTHER NOTES REQUIRED.

ASSETS AND DEBTS IN FOREIGN CURRENCIES.

The assets and debts in foreign currencies and the cash transactions not completed on the balance sheet date have been converted into euros at the official middle rates quoted on December 31, 2002.

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

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

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

As per December 31, 2002 total assets in foreign currencies were EUR 50.2 billion, converted in accordance with § 340 h (1) of the Commercial Code.

Total debts in foreign currencies were EUR 95.4 billion.

NOTES ON TRANSACTIONS BEARING A MARKET RISK.

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

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

DERIVATIVES BUSINESS.

Derivatives Business

EUR million

	Nominal values	Nominal values	Replacement costs ¹⁾	Credit risk equivalents ¹⁾
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2002
Volumes				
Contracts with interest rate risks				
Interest rate swaps	187,157	144,646	6,516	1,592
Standstill obligations on swap options	769	0	0	0
Spreadlocks	572	0	0	0
Caps and floors ²⁾	650	2	10	4
	189,148	144,648	6,526	1,596
Others	26	26	0	0
Total³⁾	189,174	144,674	6,526	1,596
Contracts with currency risks				
Cross-currency swaps	56,921	49,533	1,974	1,058
FX swaps	6,695	4,683	25	19
Forward exchange deals	395	345	29	8
Spot exchange deals	18	0	0	0
Others	0	0	0	0
Total³⁾	64,029	54,561	2,028	1,085
Contracts with other price risks				
Share options under standstill agreements	72	161	0	0
Total³⁾	72	161	0	0

Nominal Values EUR million	Interest rate risks		Currency risks		Other price risks	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
Terms						
With remaining terms of						
■ up to 3 months	8,487	4,155	8,553	3,251	0	0
■ more than 3 months to 1 year	21,450	11,330	3,525	6,626	0	0
■ more than 1 year to 5 years	88,799	68,867	32,452	26,550	72	161
■ more than 5 years	70,438	60,322	19,499	18,134	0	0
Total³⁾	189,174	144,674	64,029	54,561	72	161

¹⁾ On December 31, 2002 KfW had deposited a total of EUR 595.2 million in the form of cash deposits and securities as security for derivatives transactions. All contracts are valued by the mark-to-market method; the replacement value given is without add-on (previous year with add-on).

²⁾ Without "embedded" caps and floors

³⁾ OTC contracts

EUR million

	Nominal values		Replacement costs ¹⁾		Credit risk equivalents ¹⁾	
	Dec. 31, 2002	Dec. 31, 2001	Without netting	With netting	Without netting	With netting
			Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2002
Counterparties						
OECD banks	183,320	147,283	5,975	964	2,000	544
Banks outside the OECD	0	110	0	0	0	0
Others	67,715	51,528	2,559	557	680	247
Public authorities	2,240	475	20	20	0	0
Total²⁾	253,275	199,396	8,554	1,541	2,680	791

¹⁾ On December 31, 2002 KfW had deposited EUR 595.2 million in the form of cash deposits and securities as security for derivatives business. All contracts are valued according to the mark-to-market method. The replacement costs are given without add-on (previous year: with add-on). The credit risk equivalents given in accordance with Principle 1 of the KfW Law include add-on. The list of derivatives according to counterparties now includes the replacement costs (unlike the previous year) after netting and the credit risk equivalents after netting.

²⁾ OTC contracts

KfW Group
EUR million

	Nominal values	Nominal values	Replacement costs ¹⁾	Credit risk equivalents ¹⁾
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2002
Volumes				
Contracts with interest rate risks				
Interest rate swaps	187,969	145,600	6,550	1,601
Standstill obligations on swap options	769	0	0	0
Spreadlocks	572	0	0	0
Forward rate agreements	0	10	0	0
Caps and floors ²⁾	751	41	11	5
	190,061	145,651	6,561	1,606
Others	26	26	0	0
Total³⁾	190,087	145,677	6,561	1,606
Contracts with currency risks				
Cross-currency swaps	57,339	50,004	1,987	1,065
FX swaps	6,695	4,683	25	19
Forward exchange deals	395	345	29	8
Spot exchange deals	18	0	0	0
Others	0	0	0	0
Total³⁾	64,447	55,032	2,041	1,092
Contracts with other price risks				
Share options under standstill agreements	72	161	0	0
Total³⁾	72	161	0	0

Nominal Values EUR million	Interest rate risks		Currency risks		Other price risks	
	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001
Terms						
With remaining terms of						
■ up to 3 months	8,487	4,178	8,553	3,251	0	0
■ more than 3 months to 1 year	21,549	11,494	3,563	6,671	0	0
■ more than 1 year to 5 years	89,386	69,357	32,781	26,919	72	161
■ more than 5 years	70,665	60,648	19,550	18,191	0	0
Total³⁾	190,087	145,677	64,447	55,032	72	161

¹⁾ On December 31, 2002 KfW had deposited a total of EUR 595.2 million in the form of cash deposits and securities as security for derivatives transactions. All contracts are valued by the mark-to-market method; the replacement value given is without add-on (previous year with add-on)

²⁾ Without "embedded" caps and floors

³⁾ OTC contracts

EUR million

	Nominal values		Replacement costs ¹⁾		Credit risk equivalents ¹⁾	
	Dec. 31, 2002	Dec. 31, 2001	Without netting	With netting	Without netting	With netting
			Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2002	Dec. 31, 2002
Counterparties						
OECD banks	184,552	148,669	6,020	1,009	2,014	558
Banks outside the OECD	7	120	1	1	0	0
Others	67,807	51,606	2,561	559	682	249
Public authorities	2,240	475	20	20	0	0
Total²⁾	254,606	200,870	8,602	1,589	2,696	807

¹⁾ On December 31, 2002 KfW had deposited EUR 595.2 million in the form of cash deposits and securities as security for derivatives business. All contracts are valued according to the mark-to-market method. The replacement costs are given without add-on (previous year: with add-on). The credit risk equivalents given in accordance with Principle 1 of the KfW Law include add-on. The list of derivatives according to counterparties now includes the replacement costs (unlike the previous year) after netting and the credit risk equivalents after netting.

²⁾ OTC contracts

In addition, KfW has taken on the risks of default on loans to small and medium-sized enterprises and for housing construction and transferred them to the capital market. The risks were assumed through credit derivatives, the total amount of which on December 31, 2002 was EUR 27.5 billion (EUR 8.7 billion in the previous year). The transfer of the full risk to the capital market was made through credit default swaps (EUR 25.0 billion) or credit linked notes (EUR 2.5 billion).

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

The loans in the name of third parties and for third party account totalled EUR 2,146 million as per December 31, 2002.

PERSONNEL.

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

	2002 KfW	2001 KfW	2002 Group	2001 Group
Female employees	1,030	966	1,292	1,217
Male employees	1,152	1,097	1,373	1,324
Staff on performance-related agreements	1,513	1,385	1,776	1,648
Staff on collective wage agreements	669	678	889	893
Total	2,182	2,063	2,665	2,541

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

The total remuneration paid to members of the Board of Managing Directors of KfW for 2002 was EUR 1,900,000, while the remuneration paid to members of the Board of Supervisory Directors of KfW was EUR 177,000.

A liability of EUR 25,275,000 had been accrued at Dec. 31, 2002 for obligations under pension arrangements for retired members of the Board of Managing Directors and their surviving dependants; current payments amounted to EUR 1,949,000.

Loans and advances to members of the Board of Managing Directors amounted to EUR 95,000 on Dec. 31, 2002.

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

Hans W. Reich

Aareal Bank AG, Wiesbaden
ALSTOM GmbH, Frankfurt am Main
HUK-Coburg Haftpflicht-Unterstützungs-Kasse kraftfahr-
ender Beamter Deutschlands a. G. in Coburg, Coburg
HUK-COBURG-Holding AG, Coburg
Deutsche Telekom AG, Bonn
IKB Deutsche Industriebank AG, Düsseldorf
RAG Aktiengesellschaft, Essen
ThyssenKrupp Steel AG, Duisburg

Dr. Peter Klaus

Allgemeine HypothekenBank Rheinboden AG,
Frankfurt am Main
Babcock Borsig AG, Oberhausen
debis AirFinance B.V., Amsterdam
Deutsche VerkehrsBank AG, Frankfurt am Main
Georgsmarienhütte Holding GmbH, Georgsmarienhütte
STEAG AG, Essen
ThyssenKrupp Technologies AG, Essen

Ingrid Matthäus-Maier

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

Detlef Leinberger

DtA-Beteiligungsholding-AG, Berlin
European Investment Fund, Luxemburg
Landwirtschaftliche Rentenbank, Frankfurt am Main

Wolfgang Kroh

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH, Cologne

Gerhard Lewark, Dr. Volker Groß, Detlef Vogt

KfW International Finance Inc., Delaware, USA

Heinrich Heims

EKO Stahl GmbH, Eisenhüttenstadt
TelecomAsia Public Corp. Ltd., Bangkok, Thailand
Bangkok Inter Teletech Company Ltd,
Bangkok, Thailand

Klaus Tüngeler

TelecomAsia Public Corp. Ltd., Bangkok, Thailand

Waltraud Wolff

Saarstahl AG, Völklingen

As per December 31, 2002

BOARD OF SUPERVISORY DIRECTORS.

Hans Eichel

Federal Minister of Finance
Chairman

Dr. Werner Müller

Federal Minister of Economics
and Technology
Deputy Chairman
(until October 21, 2002)

Wolfgang Clement

Federal Minister of Economics
and Labour
(since October 22, 2002)
Deputy Chairman
(since November 6, 2002)

Peter Benz

Lord Mayor of the City
of Darmstadt
Representative of the Municipalities

Kurt Bodewig

Federal Minister of Transport,
Building and Housing
(until October 21, 2002)

Anton F. Börner

President of the Bundesverband
des Deutschen Groß- und Außen-
handels e.V.
Representative of Trade

Dr. Rolf-E. Breuer

President of the Bundesverband
deutscher Banken e.V.
Representative of the
Commercial Banks
(since February 10, 2002)

Dr. Ulrich Brixner

Chairman of the Board of Managing
Directors of DZ BANK AG
Representative of the
Cooperative Banks

Joschka Fischer

Federal Minister of Foreign Affairs

Lutz Freitag

President of the GdW Bundes-
verband deutscher Wohnungs-
unternehmen e.V.
Representative of Housing

Dr. Rolf-Jürgen Freyberg

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

Wolfgang Gerhards

Minister of Finance of the State
of Saxony-Anhalt (ret.)
Member appointed by the
Bundesrat (Upper House)
(until September 18, 2002)

Dr. Frank Heintzeler

Spokesman of the Board of
Managing Directors of
Baden-Württembergische Bank AG
Representative of the
Commercial Banks
(until February 9, 2002)

Dr. Dietrich H. Hoppenstedt

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

Dr. Karsten von Köller

Chairman of the Board of Managing
Directors of EUROHYP AG
Representative of the
Mortgage Banks

Ursula Konitzer

ver.di Bundesvorstandsmitglied (ret.)
Representative of the Trade Unions

Christiane Krajewski

Senator for Finance of the State
of Berlin (ret.)
Member appointed by the
Bundesrat (Upper House)
(until January 16, 2002)

Renate Künast

Federal Minister of Consumer
Protection, Food and Agriculture

Professor Dr. Karl-Heinz Paqué

Minister of Finance of the State
of Saxony-Anhalt
Member appointed by the
Bundesrat (Upper House)
(since November 8, 2002)

Hartmut Perschau

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

Heinz Putzhammer

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

Dr. Michael Rogowski

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

Dr. Thilo Sarrazin

Senator for Finance of the State
of Berlin
Member appointed by the
Bundesrat (Upper House)
(since March 22, 2002)

Hanns-Eberhard Schleyer

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

Dr. Franz Schoser

Managing Director of the
Deutscher Industrie- und
Handelskammertag (ret.)
Representative of Industry

Dieter Schulte

Chairman of the Deutscher
Gewerkschaftsbund (ret.)
Representative of the Trade Unions
(until December 31, 2002)

Michael Sommer

Chairman of the Deutscher
Gewerkschaftsbund
Representative of the Trade Unions
(since January 1, 2003)

Gerhard Sonnleitner

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

Peer Steinbrück

Minister of Finance of the State of
North Rhine-Westphalia (ret.)
Member appointed by the
Bundesrat (Upper House)
(until November 20, 2002)

Dr. Manfred Stolpe

Federal Minister of Transport,
Building and Housing
(since October 22, 2002)

Erwin Teufel

Minister President of the State of
Baden-Württemberg
Member appointed by the
Bundesrat (Upper House)

Dr. Alexander von Tippelskirch

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

Jürgen Trittin

Federal Minister of the Environ-
ment, Nature Protection and
Reactor Safety

Heidemarie Wieczorek-Zeul

Federal Minister of Economic
Cooperation and Development

BOARD OF MANAGING DIRECTORS.

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



Dr. Peter Klaus



Detlef Leinberger



Hans W. Reich (Chairman)



Ingrid Matthäus-Maier



Wolfgang Kroh

Frankfurt am Main, February 4, 2003
KREDITANSTALT FÜR WIEDERAUFBAU

AUDITOR'S REPORT REPRINT.

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

AUDITOR'S REPORT.

We have examined the financial statements, including the accounting of Kreditanstalt für Wiederaufbau, and the financial statements for the KfW Group drawn up by KfW, with the Annex, and the Report on the Situation of the Bank and the Group for the financial year from January 1, 2002 to December 31, 2002. The accounting, the financial statements and the Report on the Situation of the Bank are the responsibility of the Board of Managing Directors of Kreditanstalt für Wiederaufbau and must comply with the German regulations on commercial practice and the regulations in the Law on the Kreditanstalt für Wiederaufbau and its By-Laws. It is our task to assess the annual financial statements, the accounting, the financial statements for the Group and the Report on the Situation of the Bank and the Group, on the basis of an audit carried out by ourselves.

We carried out our examination in accordance with § 317 of the Commercial Code, observing the German principles of proper auditing established by the Institut der Wirtschaftsprüfer (IDW – Institute of Chartered Accountants). The principles state that the audit is to be planned and conducted so as to enable any inaccuracies and infringements that could materially affect the picture of the assets, financial and earnings situation as presented by the financial statements and the Group financial statements, under observance of the principles of proper account-

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

We raise no objections on the basis of our examination.

We believe that the financial statements for the bank and the Group have been drawn up in accordance with the principles of proper accounting, and that they present an accurate picture of the assets, financial and earnings

situation of Kreditanstalt für Wiederaufbau and the KfW Group. The report on the Situation of the Bank and the Group gives an accurate account of KfW and the Group and an accurate representation of the risks of future developments.

Frankfurt am Main, March 20, 2003
PwC Deutsche Revision, Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Wagener
Wirtschaftsprüfer



Struwe
Wirtschaftsprüfer

KFW ORGANIZATION CHART.



¹⁾ Berlin Branch

As per January 1, 2003

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