Annual Report 2017

Financial Statements and Management Report

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

KFW DEG

Contents

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DEG at a glance

EUR million	2017	2016
Finance		
Total financial commitments in financial year	1,551	1,553
Portfolio (volume of commitment) at year end	8,228	8,633
Total investments of co-financed enterprises/new business	11,271	6,551
Consultancy and other services		
Income from consultancy contracts, trust business and other services	17	16
Annual financial statements		
Balance sheet total	5,328	5,820
Subscribed capital	750	750
of which paid in	750	750
Reserves	1,618	1,518
Operating result before provision for risk and valuation effects from currency	220	259
Taxes	10	15
Profit for the financial year after taxes	94	96
Write-back/withdrawal from purpose-tied reserve fund	0	4
Net income	94	100

Developmental impacts of DEG's portfolio 2017	
Tax paid annually by co-financed enterprises	EUR 4 billion
Number of jobs in co-financed enterprises	1.5 million
Renewables/annual production	4,500 GWh

Report by the Supervisory Board

Advice to and supervision of the Management Board

The 2017 reporting period was shaped by the Supervisory Board and DEG's Management Board working together with a great deal of mutual trust. The Supervisory Board received prompt and comprehensive reports on all important developments at DEG and was able to assure itself of the proper conduct of the Management Board's activities. The Supervisory Board exercised regular supervision of the Management Board and conferred with it over its leadership of the business. Whenever decisions were of crucial importance to DEG, the Supervisory Board was involved, and, where necessary and following extensive consultation and scrutiny, gave its consent to specific business transactions.

DEG's rules and regulations comply with the German Federal Public Corporate Governance Code PCGC (Public Corporate Governance Kodex des Bundes) and meet modern governance standards.

Enlargement of the Supervisory Board

Towards the end of 2016, DEG exceeded the limit of 500 employees within the meaning of the One-Third-Participation Act (Drittelbeteiligungsgesetz DrittelbG), and hence fulfilled the requirements of Article 1, Section 1, Clause 3 of the Act, under which one third of positions on the Supervisory Board shall be taken by employees. On 20 March 2017, DEG's Supervisory Board, now mandatory and with 15 members, was newly constituted. Under the provisions of the One-Third-Participation Act, five of those members are chosen by DEG's employees, while the other members are appointed by the Shareholders' Meeting. The German federal government has the right to propose four members. These are regularly drawn from the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry of Economic Affairs and Energy. The selection of the remaining members of the Supervisory Board is carried out in consultation with the German Federal Ministry for Economic Cooperation and Development. Since the Supervisory Board was newly constituted in March 2017, it has comprised nine members appointed by the shareholder and five chosen by the staff. The fifteenth place has remained unfilled for the time being.

Meetings of the Supervisory Board

During the past calendar year, the Supervisory Board held four regular meetings. It was effectively assisted in carrying out its work by the committees appointed by its members. These held 19 meetings in total. The Executive and Nomination Committee, the Audit Committee and the Remuneration Control Committee each met on four occasions. The Risk and Credit Committee, which takes the final decisions on measures and transactions of particular importance in DEG's financing business, held seven meetings over the course of the past financial year.

In the period under review, the Supervisory Board focussed strongly on setting a sustainable direction for DEG's business. In the context of the company's overall strategic policy, the Supervisory Board discussed the business strategy for 2018, the risk strategy for 2018, the IT strategy for 2018 and financial planning for 2018.

The Supervisory Board expressly welcomes the high developmental impacts of the investments financed by DEG and the fact that its business model prioritises sustainability. A new system of targets, which focusses on three strategic goals, takes special account of the latter. The goals are: sustainable return, developmental impact and German business. In addition, the Supervisory Board also concentrated on DEG's Development Effectiveness Rating (DERa), a new measurement tool introduced during the past financial year. Its purpose is to assess the developmental impact of DEG's financing business. The Supervisory Board welcomes its introduction, since it allows the diverse developmental impacts of private-sector involvement to be illustrated in their entirety, while taking the Sustainable Development Goals into account. The tool also supports portfolio management geared to development management. The results of the complete DERa portfolio survey, completed in December 2017, highlight DEG's high level of developmental impact.

The Supervisory Board would also like to acknowledge that the volume of new commitments for the 2017 financial year was very similar to the level achieved in the 2016 financial year. Against a background of challenging global political dynamics, with a significant influence on DEG's business environment, this consistently high performance represents a remarkable achievement. Also noteworthy is German Desks – Financial Support and Solutions, a joint initiative by DIHK and DEG. It is setting up German-language contact points for German corporates at local DEG customer banks in developing and emerging market countries. This capitalises on DEG's extensive network by promoting the global integration of the German economy. The opening of the first German Desk, in February in Peru, was followed over the course of the year by further launches in Kenya, Nigeria and Indonesia. The fact that two of the German Desks were established in Africa underlines the continent's growing importance to the private sector and DEG. It also underpins the German federal government's development initiatives in relation to Africa.

Every year since 2014, the Supervisory Board has carried out a self-evaluation, as well as an evaluation of DEG's Management Board. The Supervisory Board's self-evaluation, based on structured questionnaires, was undertaken in the fourth quarter of 2017. The survey showed that the work and efficiency of both the board as a whole, and of its committees, were judged to be very good by the members of the Supervisory Board. The self-evaluation also confirmed the constructive and trustful nature of the shared work on the Supervisory Board, which was enhanced by the skills contributed by the five staff representatives. One member of each of the committees was chosen from among their number. The evaluation of DEG's Management Board, also based on structured questionnaires, was carried out at the end of 2017. The very favourable results of this survey testify to the high level of satisfaction with the work of DEG's Management Board among members of the Supervisory Board.

Annual financial statements and management report

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft of Düsseldorf has audited both the annual financial statements, as drawn up in accordance with statutory regulations, and the management report. The report on the annual financial statements was awarded an unqualified audit certificate.

Based on the auditor's report, the Audit Committee appointed by the Supervisory Board reviewed and discussed the annual financial statements along with the management report, and recommended that they be approved by the members of the Supervisory Board. During a final detailed review by the Supervisory Board, the board members agreed with the Audit Committee's recommendations and approved the findings of the auditor's report and the annual financial statements, including the management report.

The Supervisory Board recommended that the Shareholders' Meeting adopt the annual financial statements for 2017 and discharge the Management Board from its liabilities.

Changes in membership of the Supervisory Board

Chairman of the newly constituted Supervisory Board is Parliamentary State Secretary Hans-Joachim Fuchtel, who also chairs the Executive and Nomination Committee. Initially, Dr Norbert Kloppenburg served as First Deputy Chairman of the Supervisory Board, before being replaced by Prof. Dr Joachim Nagel on 1 November 2017. Prof. Dr Nagel also succeeded Dr Kloppenburg as Chairman of the Risk and Credit Committee. The office of Second Deputy Chairwoman of the Supervisory Board has been filled by Prof. Dr Christiane Weiland, who also chairs the Audit Committee. In February 2017, she succeeded Corinna Linner when the latter stepped down from the Supervisory Board. Further members of the Supervisory Boards are Dr Amichia Biley, Eberhard Brandes, Bertram Dreyer, Dr Patricia Flor, Dr Sabine Hepperle, Arndt Kirchhoff, Caroline Kremer, Sarah Madew, Dorothea Mikloweit, Dr Ulrich Schröder and Parliamentary State Secretary Dr Michael Meister, who chairs the Remuneration Control Committee. In March 2017, Dr Flor and Dr Hepperle replaced State Secretary Stephan Steinlein and Federal Minister Brigitte Zypries as members of the Supervisory Board.

During the 2017 financial year, Dr Schröder was able to attend fewer than half the meetings of the Supervisory Board in full, due to illness. The fifteenth seat on the Supervisory Board is to be filled in the first quarter of 2018.

Thanks and appreciation

Special thanks are due to Dr Norbert Kloppenburg, who stepped down from DEG's Supervisory Board after many years of membership. Dr Kloppenburg took on a leadership role in which he decisively shaped both the internal organisation of the Supervisory Board and DEG's successful development over recent years. Thanks for their dedicated service are also due to Corinna Linner, State Secretary Stephan Steinlein and Federal Minister Brigitte Zypries, the other members of the Supervisory Board who stepped down during the 2017 financial year.

The Supervisory Board would also like to express its gratitude and appreciation to the Management Board for its open and trustful cooperation.

Special thanks and appreciation are due to DEG's staff. Their great dedication and high-level competence have made it possible to achieve an excellent result for DEG in challenging conditions.

Cologne, 19 March 2018

Chairman of the Supervisory Board
Hans-Joachim Fuchtel

Corporate Governance Report

As a member of KfW Bankengruppe, DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) has made a commitment to act responsibly and transparently, and open up its actions to scrutiny. DEG's Management Board and Supervisory Board accept the principles of the German federal government's Public Corporate Governance Code (Public Corporate Governance Kodex des Bundes PCGC) on behalf of DEG. A first Declaration of Conformity, detailing compliance with the PCGC's recommendations, was made on 30 March 2011. Since then, any departures from the code have been declared and elucidated annually.

DEG has operated as a non-profit limited company and a legally independent, wholly owned subsidiary of KfW since 19 June 2001. Its rules and regulations (articles of association, rules of procedure for the Supervisory Board and its committees, and rules of procedure for the Management Board) specify the basic features of the system via which it is managed and controlled by its corporate bodies.

Declaration of Conformity

The Management Board and Supervisory Board of DEG make the following declaration: "Since the previous Declaration of Conformity on 20 March 2017, the recommendations of the German Federal Government's PCGC, as adopted on 1 July 2009, have been and are being complied with, excepting only the recommendations below".

Deductible for D&O insurance

KfW has entered into D&O insurance contracts which, as group insurance, also extend protection to the members of DEG's Supervisory Boards. In a departure from paragraph 3.3.2 PCGC, these merely include the option to introduce a deductible during the period under review. Since 2017, the Management Board has decided to introduce a deductible in the D&O insurance contracts for members of the Management Board which complies with the requirements of paragraph 3.3.2 PCGC.

Allocation of responsibilities

With the agreement of the Supervisory Board, and following a decision by the Shareholders' Meeting, the Management Board has compiled a set of procedural rules to regulate cooperation in managing the business. Under these rules, the Management Board itself allocates areas of responsibility in a schedule of responsibilities, but – in a departure from paragraph 4.2.2 PCGC – without the additional agreement of the Supervisory Board and with the agreement of the Shareholder's Meeting. This ensures the necessary flexibility, and hence an efficient division of labour, when changes are required.

Remuneration

In a departure from paragraph 4.3.1 PCGC, the remuneration system for members of the Management Board is drawn up by the Shareholders' Meeting rather than the Supervisory Board. This includes setting levels of remuneration and of variable remuneration components, as well as dealing with other remuneration issues.

In a departure from paragraph 4.3.2. PCGC, the performance targets and parameters specified in the agreement on targets for the Management Board may be subsequently changed by consultation between the Shareholder and DEG.

Conflicts of interest

In departure from paragraph 4.4.3 PCGC, all members of the Management Board must immediately declare any conflict of interest to the Shareholders' Meeting rather than the Supervisory Board.

Delegation to committees

The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from greater familiarity with the issues and more flexibility of scheduling. In some cases, the committees not only lay the groundwork for a decision by the Supervisory Board, but, in a departure from paragraph 5.1.8 PCGC, take the final decision themselves. This is necessary for reasons of practicality and efficiency.

In connection with DEG's financing business, the **Risk and Credit Committee** takes the final decision on measures and transactions of special significance, on whether to initiate legal disputes, to waive debts beyond the scope of settlements, and agree settlements where such legal disputes, waivers or settlements are of special significance. Having the Risk and Credit Committee make the final decision on such matters serves to speed up the process of finding a resolution.

Cooperation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work closely together for DEG's benefit. The Management Board, especially its Chairman, maintains regular contact with the Chairman of the Supervisory Board. The Management Board discusses DEG's strategic direction with the Supervisory Board and reports, at appropriate intervals, on the extent to which that strategy has been implemented. The Management Board informs the Chairman of the Supervisory Board of all events of vital importance to the assessment of DEG's situation and development. The Chairman of the Supervisory Board subsequently informs the other board members and, if necessary, calls an extraordinary meeting.

In the year under review, the Management Board reported to the Supervisory Board as per the provisions of Article 90 of the German Stock Corporation Act (AktG) and provided comprehensive information on all relevant corporate issues related to planning, business development, risk situation, risk management and compliance, as well as on any changes to the economic climate of significance to the company.

Management Board

The members of the Management Board conduct DEG's business with the care of a fit and proper business person in accordance with the law, the articles of association, the rules of procedure for the Management Board, and the decisions of the Shareholders' Meeting and the Supervisory Board. The allocation of responsibilities among members of the Management Board is regulated by a schedule of responsibilities.

In the year under review, responsibilities were allocated as follows:

Bruno Wenn as Chairman of the Management Board
- Corporate Development Division
- Financial Institutions / Project Financing Division
- Legal & Compliance Division
- Human Resources Department
- Internal Audit

Philipp Kreutz
- Finance / Risk Division
- Credit Management / Analysis Division
- In-House Services Division

Christiane Laibach
- Corporates Division 1
- Corporates Division 2
- Customer Solutions Division

The members of the Management Board are committed to DEG's corporate interest, may not pursue any personal interests in their decision-making, and are subject to a comprehensive non-competition clause during their employment with DEG. Members of the Management Board must immediately inform the Shareholder of any conflicts of interest arising. No such case occurred during the year under review.

Supervisory Board

The Supervisory Board monitors and advises the Management Board on leading the DEG.

On 1 December 2016, the Management Board announced, by publication of a notice in the German Federal Gazette, that in its view, the composition of the Supervisory Board no longer complied with the relevant statutory provisions, given that the conditions of Article 1, Section 1, Clause 3 of the One-Third Participation Act (DrittelbG) had been met. Consequently, DEG's articles of association were amended with effect from 20 February 2017. New procedural rules for the Supervisory Board and its committees, and separately for the Management Board, were issued on this basis and came into force on 20 March 2017.

Under DEG's articles of association, the Supervisory Board (now mandatory) consists of fifteen members as a general rule. Five of these are staff representatives elected under DrittelbG provisions, while the other members are appointed by the Shareholders' Meeting. The German federal government has the right to propose four members, who represent the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry of Economic Affairs and Energy, respectively. The remaining members of the Supervisory Board are selected in consultation with the Federal Ministry for Economic Cooperation and Development.

In the year under review, the Supervisory Board had fourteen members: five staff representatives, four representatives of the federal government drawn from the above-mentioned ministries, two representatives of the Shareholder and three further members. The unoccupied seat on the Supervisory Board is due to be filled in early 2018. The chairmanship of the Supervisory Board in the year under review was held by Hans-Joachim Fuchtel, Parliamentary State Secretary under the Federal Minister for Economic Cooperation and Development. The Supervisory Board had six female members during the year in question. As a result, the board has now met the target of 33% female membership, which it imposed on itself on 19 June 2017.

The following are excluded from membership of the Supervisory Board:

- any member of DEG's Management Board,
- any former member of DEG's Management Board, if membership of the Supervisory Board already includes two former members of the Management Board,
- anyone who serves as an executive officer in another business and is, at the same time, a member of the administrative or supervisory body of more than two further corporates, and
- anyone who is a member of the administrative or supervisory body of more than four businesses.

Every member of the Supervisory Board shall disclose conflicts of interest to the Supervisory Board. Where a conflict of interest is assumed to exist, the board member in question shall not be involved in discussing or deciding on that item on the agenda. Any conflicts of interest in the person of a member of the Supervisory Board which are likely to prevent that member from meaningfully exercising his or her mandate over a sustained and prolonged period of time shall result in the termination of the mandate. No such instance occurred in the year under review.

In the year under review, Dr Ulrich Schröder attended fewer than half the meetings of the Supervisory Board in full.

Committees of the Supervisory Board

The Supervisory Board has set up the following four committees from among its members to ensure the efficient performance of its duties in accordance with Article 25d of the Banking Act of the Federal Republic of Germany (KWG):

The **Executive and Nomination Committee** deals with HR issues and the principles of corporate governance. When necessary, it prepares for meetings of the Supervisory Board. The responsibilities of the Executive and Nomination Committee include, amongst other things, discussing issues connected with appointing and relieving members of the Management Board.

The **Remuneration Control Committee** handles remuneration issues. It specifically deals with drawing up appropriate remuneration systems for members of the Management Board and DEG staff.

The **Risk and Credit Committee** advises the Supervisory Board on issues related to risk, e.g. specifically, DEG's overall risk tolerance and risk strategy. In connection with DEG's financing business, it also acts on behalf of the Supervisory Board by taking final decisions on measures and transactions of special significance, on whether to initiate legal disputes, to waive debts beyond the scope of settlements, and on whether to agree settlements where such legal disputes, waivers or settlements are of special significance.

The **Audit Committee** deals specifically with: monitoring the financial reporting process; with the effectiveness of the risk management system, especially the Internal Control System and the Internal Audit; with the audit of the annual financial statements and with evaluating whether the auditor demonstrates the required independence. It also sets priorities for the audits and oversees the speedy elimination of any deficiencies uncovered by the auditor.

The committee chairmen or chairwomen report regularly to the Supervisory Board. The Supervisory Board may disband the committees, regulate their duties and reclaim their powers at any time.

In its report, the Supervisory Board provides information about its own work and the work of its committees during the year under review. A summary listing the members of the Supervisory Board and its committees may be found on DEG's website.

Shareholder

DEG's sole Shareholder is KfW. The Shareholders' Meeting is responsible for all matters not assigned, by law or by the articles of association, to another body as its exclusive responsibility, and in particular for: approving the annual financial statements and the appropriation of the annual result or net income; establishing the sum available within the company for variable remuneration components; appointing and relieving members of the Supervisory Board; discharging members of the Supervisory and Management Boards from their liability; and appointing the auditor of the annual accounts. The members of the Management Board require the prior agreement of the Shareholders' Meeting to conduct any negotiations at CEO level that exceed the scope of the company's ordinary operations.

Supervision

DEG is a credit institution within the meaning of Article 1, Section 1 of the Banking Act of the Federal Republic of Germany (KWG). The German Federal Financial Supervisory Authority (BaFin) has issued revocable exemptions to DEG as per Article 2, Section 4 KWG, which partially exempt it from the provisions of the act. Nevertheless, DEG does, on the whole, apply the relevant standards of the Banking Act mutatis mutandis, especially the minimum requirements for risk management (MaRisk).

Public benefit

DEG exclusively and directly serves the public benefit within the meaning of the "Tax-deductible purposes" article of the German Fiscal Code (Abgabenordnung). The company's purpose is to promote development cooperation. DEG is non-profit-making.

Transparency

DEG makes key information about the company and its annual financial statements available on its website. Corporate Communications also provides regular updates on current corporate developments. The annual Corporate Governance Reports, including the Declaration of Conformity in respect of the Public Corporate Governance Code PCGC, are permanently available on DEG's and KfW's websites. As of 1 January 2015, DEG also publishes information on its website about the projects and enterprises it finances.

Risk management

Risk management and risk controlling are key management tasks at DEG. The Management Board draws up the risk strategy, establishing the framework for business activities in relation to risk tolerance and risk-bearing capacity. This ensures that DEG is able, sustainably and over the long term, to maintain an acceptable risk profile while fulfilling its specific tasks. Monthly risk reports to the Management Board present a comprehensive analysis of the DEG's overall risk situation. The Supervisory Board is regularly given a detailed update on the risk situation, at least once per quarter.

Compliance

DEG's success depends to a significant degree on the trust which the Shareholder, customers, business partners, staff members and the public place in its effectiveness and especially its integrity. This trust is substantially rooted in its implementation of, and compliance with, the relevant legal and regulatory requirements and in-house rules, as well as other applicable laws and regulations. DEG's compliance organisation includes, in particular, provisions to ensure that the regulatory requirements of the MaRisk compliance function are met, and that data protection rules are followed. It further includes provisions to guarantee securities compliance, to comply with the terms of financial sanctions, to prevent money laundering, the financing of terrorism and other criminal activities, and to achieve a suitable level of information security, appropriate business continuity management, the identification of operational risks and the mapping of an internal control system. Accordingly, it has binding regulations and procedures that influence implemented values and corporate culture. These are continuously updated to reflect the statutory framework and market requirements. Regular training on all aspects of compliance is available to DEG employees in the form of both e-learning programmes and classroom sessions.

Accounting and annual audit

On 13 December 2016, DEG's Shareholder appointed Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (E&Y) as auditor for the 2017 financial year. The Supervisory Board subsequently issued the audit mandate to E&Y on 2 June 2017 and established priorities for the audit with the auditor. It was agreed with the auditor that the Chairman of the Supervisory Board would immediately be informed of any findings and circumstances of material significance to the duties of the Supervisory Board that might arise during the audit. It was further agreed that the auditors should inform the Chairman of the Supervisory Board or include a note in the audit if, while carrying out the audit, they ascertained facts that negated the accuracy of the Declaration of Conformity as per the PCGC.

Efficiency review of the Supervisory Board

The Supervisory Board regularly reviews the efficiency of its activities. To that end, it carries out an annual evaluation of the Supervisory Board and the Management Board.

REMUNERATION REPORT

The remuneration report describes the basic structure of the remuneration system for the Management Board and the Supervisory Board and discloses the individual remuneration for members of both boards. The remuneration report is part of the appendix to the annual financial statements.

Remuneration of the Management Board

The remuneration system for DEG's Management Board is designed to provide appropriate compensation for board members in accordance with their remit and areas of responsibility, taking into account their performance and the company's success.

Remuneration components

On 20 March 2017, DEG's Supervisory Board voted to retain, without change, the remuneration system for DEG's Management Board agreed on 18 March 2010. This system meets PCGC rules on variable remuneration components and includes a balanced mix of short and medium-term incentives. For instance, only half of performance-related management bonuses, as measured by target fulfilment, is immediately disbursed to the Management Board. The other half constitutes a provisional claim only, and is paid from a "bonus account" in equal instalments over the following three years, provided there is no significant decline in business performance. If the agreed profitability target is not met in subsequent years, payments from the bonus account shall be subject to a penalty.

The following summary shows total compensation for individual members of the Management Board, broken down by fixed

Remuneration for the Management Board and members of the Management Board

EUR k	2017	2016	Change
Management Board	1,292	1,288	4
Former members of the Management Board & surviving dependants	836	880	–44
Members of the Supervisory Board	66	24	37[1)]
Total	**2,194**	**2,197**	**–3**

[1)] The discrepancy arises mainly because of the increase in Supervisory Board membership as a result of compliance with the One-Third Participation Act (DrittelbG).

and variable components and benefits in kind, as well as transfers to pension provision and the balance of their bonus accounts.

Responsibility

The Shareholder consults on the remuneration system for the Management Board, including contractual elements, and reviews it regularly. The Shareholder agrees the remuneration system following consultation with the Supervisory Board. The adequacy of the remuneration was last reviewed in March 2017.

Benefits in kind

Benefits in kind primarily include contractual fringe benefits. Members of the Management Board are entitled to a company car for both business and personal use. In keeping with current tax regulations, any costs incurred due to personal use of the company car are met by the members of the Management Board. If a second residence is required for business purposes, the costs of running the second household are reimbursed as per tax regulations.

Members of the Management Board are insured under a group accident insurance policy. Health insurance and long-term care insurance are subsidised. In respect of the risks associated with their management activities on the governing body, members of the Management Board are insured under a policy that covers liability for monetary damages (D&O insurance), and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are arranged as group insurance.

Members of DEG's Management Board are further covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

Like all senior executives, members of the Management Board are entitled to participate in the Deferred Compensation Scheme, a supplementary company pension plan via deferred compensation payments deducted from salary. Under DEG's general rules, they are also entitled to long service awards.

Contractual fringe benefits further include the cost of security measures at residential properties occupied by members of the Management Board. The provision of this security is accounted for under operating charges rather than as benefits in kind.

Where contractual fringe benefits cannot be granted on a tax-free basis, they are subject to taxation as non-cash benefits, with any tax being payable by the members of the Management Board.

In 2017, no member of the Management Board was in receipt of a loan from DEG or KfW.

In the past financial year, no member of the Management Board received benefits, or a pledge to that effect, from a third party in respect of his or her activities as a member of DEG's Management Board.

Entitlement to a retirement pension and other benefits in case of early retirement

Under Article 5, Section 1 of DEG's articles of association, the appointment of a member of the Management Board shall not extend beyond the attainment of statutory retirement age. After they reach the age of 65, or statutory retirement age respectively, and following expiry of their contract of employment as members of the Management Board, board members are entitled to pension payments. This also applies if their service ends due to invalidity.

In respect of contracts of employment for a term that began in 2014 or earlier, members of the Management Board may, at their own request, take early retirement after they have reached the age of 63. In the year under review, Bruno Wenn made use of this provision. He accordingly made a supplementary agreement with the Shareholder under which he will take early retirement from his position on the Management Board on 30 June 2018.

If the board member's employment is not extended before reaching retirement age, and no important reason as per Article 626 of the German Civil Code (BGB) applies to the person of the member of the Management Board, he or she is entitled to agree a transitional allowance for the period until pension payments fall due.

Retirement pensions for former members of the Management Board or surviving dependants

	Number 2017	EUR k 2017	Number 2016	EUR k 2016
Former members of the Management Board	5	503.6	6	620.0
Dependants	5	332.7	4	259.8
Total	**10**	**836.3**	**10**	**879.7**

Annual compensation of members of the Management Board and transfers to pension provision for 2016 and 2017[1]

EUR k[1]		Salary	Variable compensation*	Benefits in kind[2]	Total	Bonus account	Transfer to pension provision
Bruno Wenn (Chairman)	2017	344.9	74.4	13.3	**432.6**	72.9	901.1[4]
	2016	344.9	72.4	14.0	**431.3**	72.7	367.2
Dr Michael Bornmann	2017	-	28.0[3]	0.0	**28.0**	16.5	-
	2016	-	44.5[3]	0.0	**44.5**	44.5	0.0
Philipp Kreutz	2017	344.9	74.7	11.5	**431.1**	73.8	111.1
	2016	344.9	73.7	11.7	**430.3**	74.1	194.8
Christiane Laibach	2017	344.9	46.3	9.3	**400.6**	55.4	123.7
	2016	344.9	27.1	9.2	**381.3**	27.1	94.3
Total	**2017**	**1,034.8**	**223.4**	**34.1**	**1,292.2**	**218.6**	**1,135.9**
	2016	**1,034.8**	**217.7**	**34.9**	**1,287.5**	**218.4**	**656.3**

[1] For computational reasons, the table may contain discrepancies due to rounding.

[2] In a departure from the figures in the appendix, this table excludes the employer's contribution as per the German Social Security Act. The total for 2017 was EUR 36.9 k (previous year; EUR 35.7 k).

[3] Dr Bornmann received variable compensation in respect of his activities as CEO.

[4] The high value of transfer to pension provision includes the retirement on 30 June 2018.

* In a departure from the figures in the appendix, this table includes the variable compensation actually paid as part of a phased system.

Pension commitments for members of the Management Board and surviving dependants are based on the principles governing the employment of board members at German federal credit institutions (1992 version). PCGC provisions are taken into account when drawing up contracts of employment for members of the Management Board.

Where members of the Management Board were appointed or reappointed after 2011, their contracts of employment include a cap on any severance package in keeping with PCGC recommendations. Under the code, any payoff to a member of the Management Board, due to early termination of his or her activities as a board member, is accordingly limited to double the annual salary, or compensation due for the remaining period of his or her contract, including fringe benefits, whichever is lower. This only applies provided no important cause as per Article 626 of the German Civil Code is present.

In general, the full retirement pension entitlement is equivalent to 49% of annual fixed remuneration. At initial appointment, the retirement pension entitlement routinely amounts to 70% of the full entitlement and rises over a period of ten years by 3% for every completed year of service. In departure from this, the entitlement of Monika Beck, who is due to succeed Bruno Wenn as member of DEG's Management Board on 1 July 2018, will increase by 0.82% for every full year of service, up to a pension entitlement of 46.6% when she receives her pension upon retirement.

If the employment contract of a member of the Management Board is terminated or not renewed due to a significant reason as per Article 626 of the German Civil Code, any pension entitlements are void in keeping with the principles developed by employment contract case law.

Pensions to former members of the Management Board and their surviving dependants amounted to EUR 879.7 k in 2016 and EUR 836.3 k in 2017.

No loans were provided to former members of the Management Board or their surviving dependants in the 2017 financial year.

Compensation for the Supervisory Board

Members of the Supervisory Board receive compensation at a level set by the Shareholders' Meeting as per Article 13 (1) of DEG's articles of association and in keeping with the company's character as an institution serving the public benefit.

In the year under review, compensation for ordinary members amounted to EUR 5,000. Chairmanship of the Supervisory Board attracts compensation in the sum of EUR 9,000, while the two Deputy Chairmen each receive EUR 8,000. With the exception of the Executive and Nomination Committee, committee members each receive annual compensation of EUR 500, while the committee chairs receive compensation in the amount of EUR 1,000 per annum.

Where membership covers only part of a year, remuneration is paid pro rata.

An attendance fee of EUR 500 per meeting is paid (excepting only meetings of the Executive and Nomination Committee), along with a daily allowance of EUR 12 per day of attendance. Any travel expenses incurred and any value-added tax payable are reimbursed.

The following tables provide details of the Supervisory Board's remuneration for the 2016 and 2017 financial years. The sums shown are EUR net and have all been paid. Travel expenses and other miscellaneous expenses were reimbursed upon presentation of receipts and are not included in the table.

There are no pension obligations towards members of the Supervisory Board.

In the year under review, members of the Supervisory Board received no remuneration for services provided in a personal capacity.

In respect of the risks associated with their activities as corporate officers on the Supervisory Board, board members are insured under a policy that covers their liability for monetary damages (D&O insurance). A supplementary policy covers them for monetary damages and legal expenses. These insurance policies are arranged as group insurance. Currently, no deductible has been agreed. Members of the Supervisory Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

No loans were made to members of the Supervisory Board during the year under review.

Cologne, 19 March 2017

The Management Board The Supervisory Board

Compensation of members of the Supervisory Board for the 2016 and 2017 financial years

EUR

No.	Name	Period of membership 2017	Supervisory Board membership	Committee membership	Daily allowance & attendance fee	Total
1.	Hans-Joachim Fuchtel[1)]	01.01–31.12	-	-	-	**-**
2.	Dr Norbert Kloppenburg[1)]	01.01–31.10	-	-	-	**-**
3.	Eberhard Brandes[1)]	01.01–31.12	-	-	-	**-**
4.	Arndt G. Kirchhoff	01.01–31.12	5,000	-	1,024	**6,024**
5.	Corinna Linner	01.01–20.02	1,117	279	-	**1,396**
6.	Dr Michael Meister[1)]	01.01–31.12	-	-	-	**-**
7.	Dr Ulrich Schröder[1)]	01.01–31.12	-	-	-	**-**
8.	Stephan Steinlein[1)]	01.01–20.02	-	-	-	**-**
9.	Brigitte Zypries[1)]	01.01–26.01	-	-	-	**-**
10.	Prof. Dr Joachim Nagel[1)]	01.11–31.12	-	-	-	**-**
11.	Prof. Dr Christiane Weiland	20.02–31.12	6,882	1,720	9,584	**18,186**
12.	Dr Patricia Flor[1)]	20.03–31.12	-	-	-	**-**
13.	Dr Sabine Hepperle[1)]	20.03–31.12	-	-	-	**-**
14.	Dr Amichia Biley	20.02–31.12	4,301	-	2,036	**6,337**
15.	Dorothea Mikloweit	20.02–31.12	4,301	430	4,048	**8,779**
16.	Sarah Madew	20.02–31.12	4,301	430	4,572	**9,303**
17.	Bertram Dreyer	20.02–31.12	4,301	-	2,536	**6,837**
18.	Caroline Kremer	20.02–31.12	4,301	430	4,024	**8,755**
Total net amount			**34,505**	**3,289**	**27,824**	**65,617**

EUR

No.	Name	Period of membership 2016	Supervisory Board membership	Committee membership	Daily allowance & attendance fee	Total
1.	Hans-Joachim Fuchtel[1)]	01.01–31.12	-	-	-	**-**
2.	Dr Norbert Kloppenburg[1)]	01.01–31.12	-	-	-	**-**
3.	Eberhard Brandes[1)]	01.01–31.12	5,000	-	-	**5,000**
4.	Arndt G. Kirchhoff	01.01–31.12	5,000	-	1,024	**6,024**
5.	Corinna Linner	01.01–31.12	8,000	2,000	8,072	**18,072**
6.	Dr Michael Meister[1)]	01.01–31.12	-	-	-	**-**
7.	Dr Ulrich Schröder[1)]	01.01–31.12	-	-	-	**-**
8.	Stephan Steinlein[1)]	01.01–31.12	-	-	-	**-**
9.	Brigitte Zypries[1)]	01.01–31.12	-	-	-	**-**
Total net amount			**18,000**	**2,000**	**9,096**	**29,096**

[1)] Remuneration not claimed.

Management Report 2017

CORPORATE ESSENTIALS

Business model

DEG – Deutsche Investitions- and Entwicklungsgesellschaft mbH, Cologne (DEG) – is mandated to promote the private sector in developing and emerging market countries within the context of entrepreneurial development cooperation. In order to fulfil this development mandate, DEG has defined a strategic system of goals in three dimensions. These comprise sustainable returns, a high level of developmental impact, and the provision of financing and supportive advice to German enterprises.

Skilled work and an income are essential prerequisites, if people's living conditions are to be improved and poverty overcome. Entrepreneurial initiative is the main driver, since the vast majority of jobs are created in the private sector. DEG finances economically and developmentally sustainable, socially and environmentally sound investment by private-sector enterprises with loans, guarantees, loans with equity features and participating interests. It addresses, in particular, medium-sized businesses ("Mittelstand") and small and medium-sized enterprises (SMEs) with its offerings. DEG's aim is to contribute to sustained success on the part of its customers by providing reliable, long-term finance and advice. Only consistently successful enterprises create permanent jobs and generate sustainable developmental impacts. Consequently, DEG's commitment supports the implementation of the Sustainable Development Goals (SDG) contained in the United Nations' Agenda 2030.

With their involvement in emerging markets and developing countries, German enterprises make important contributions to development. In doing so, they secure market share and open up new markets in growth regions. That is why DEG provides financing and advice to medium-sized German enterprises in emerging markets and developing countries, offering a range of services that are tailored to their specific requirements and constantly evolving. In 2017, DEG expanded its offerings to this group of customers. It joined forces with local banks and German chambers of foreign trade to open "German Desks – Financial Support and Solutions" in Peru, Kenya, Nigeria and Indonesia. These are central points of contact for German enterprises and their local trading partners; they offer financial services in cooperation with local banks.

In order to serve its customers' individual needs, DEG additionally provides "Business Support Services" (BSS). Enterprises can be supported in further boosting their business performance and enhancing the developmental impact of their schemes, usually by involving outside experts. DEG also offers promotional programmes to co-finance developmental effective measures by private-sector enterprises as, for example, feasibility studies or pilot projects. In such cases, DEG deploys its own or public funds to supplement the financial commitment of the enterprises involved.

As a development institution with a development policy mandate, DEG operates on the subsidiarity principle. It provides finance where the market fails to offer financing to enterprises at an adequate level, or indeed at all. As a pioneer investor DEG becomes involved in IDA (International Development Association) and post-conflict countries in Africa and other regions. It demonstrates that long-term entrepreneurial success is possible even in difficult conditions, thus sending a signal to investors and businesses. By mobilising additional private-sector capital, it increases the leverage effect of its commitment.

Within the scope of its activities, DEG thinks and operates like an entrepreneur. That includes generating risk-appropriate earnings. Any surpluses DEG generates are used to expand its equity capital base and strengthen its risk-bearing capacity. This forms the necessary foundation that enables DEG to pursue and grow its activities by drawing on its own resources.

As a specialist for the development of the private sector in developing and emerging market countries, DEG is one of the mainstays of the KfW Group's involvement in foreign countries. Together with KfW Entwicklungsbank and KfW IPEX-Bank GmbH, it shapes KfW's range of international financing.

Comprehensive knowledge of the economic and political conditions in partner countries, close links to customers, and a permanent presence on the ground are essential, if DEG's development mandate is to be fulfilled effectively. To achieve this, DEG maintains representative offices at thirteen locations in Africa, Asia, Latin America and Eastern Europe. It also shares the use of the KfW Group's approximately 80 international offices.

As one of the leading European development finance institutions, DEG works closely with other development finance providers. The joint aim is to enhance efficiency, achieve a greater impact, and improve visibility. An important priority is cooperation with the members of the European Development Finance Institutions (EDFI), especially with FMO of the Netherlands and PROPARCO of France, as well as with the International Finance Corporation (IFC).

SUSTAINABILITY

Developmental impact

DEG evaluates the impact of its commitments in relation to the promotion of local development and contributions to the global sustainability agenda (SDG) by applying its newly devised Development Effectiveness Rating (DERa). This rating takes advantage of international best practice approaches by using predominantly quantitative and harmonised indicators. Since 2017, DERa has been applied to the portfolio as a whole and to all new commitments. In alignment with the SDGs, each customer's contributions to development are assessed across five impact categories. These are: good and fair employment, local income, development of markets and sectors, environmentally sound operations, benefit to local communities.

For 2017, the complete portfolio survey applying DERa demonstrates that DEG's existing customers

- employ approx. 1.5 million people, with some 320,000 of those jobs having been newly created since financing was provided by DEG,
- generate EUR 67 billion in annual income locally, of which EUR 4 billion relates to tax payments and a further EUR 14 billion to wages and salaries.

The financial institutions and funds reach more than 2 million small and medium-sized enterprises as existing customers.

With its commitments, DEG contributes in particular to the following SDGs: Goal 1 (No Poverty), Goal 7 (Affordable and Clean Energy), Goal 8 (Decent Work and Economic Growth) and Goal 9 (Industry, Innovation and Infrastructure).

With a DERa score of 76, DEG's portfolio achieves good developmental quality (scale: ≤ 49 poor, 50–69 satisfactory, 70–84 good, 85–99 very good, ≥ 100 excellent).

For each new commitment, a baseline is established by first applying DERa before DEG makes an investment. A forecast is made, outlining the anticipated developmental impacts of the investment over a five-year period. The DERa baseline score for new commitments is 66; the aim over the coming years is to increase that to 82. In addition, the 111 new commitments for 2017 are expected to safeguard around 400,000 jobs over five years, of which some 127,000 will have been newly created. The implementation of international environmental and social standards, and targeted promotional programmes, e.g. in the fields of environmental protection, education and training, are additionally expected to improve the developmental impact of the commitments.

DEG provides information about the developmental impact of its commitments, and its contribution to the global sustainability goals, in an annual development report.

Environmental and social management

Environmentally and socially acceptable planning and action are important prerequisites if development is to be successfully and sustainably organised. Investment in developing countries offer considerable opportunities to improve the environmental and social situation on the ground, but there may also be significant inherent risks. That is why the evaluation of environmental and social risks is part and parcel of DEG's overall risk evaluation. For every proposal, its Sustainability Department verifies whether actions are environmentally responsible, human rights are being respected and fair working conditions are being offered. Certain business activities are excluded from financing by DEG altogether. These are summarised in an exclusion list. On its website, DEG publishes a wide range of information about the standards and processes it applies.

For all the proposals to which DEG committed financing in 2017, the enterprises concerned have, as in previous years, contractually undertaken to comply with national regulations, as well as with international environmental and social standards. If necessary, DEG assists the enterprises in implementing the measures required to achieve standards. These include the IFC performance standards (in the current version, revised following an extensive process which included input from DEG) as environmental, social and human rights standards, as well as the core labour standards set up by the International Labour Organization (ILO).

In 2017, DEG was again able to play its part in creating even better conditions in co-financed enterprises, by agreeing environmental and social action plans for proposals with a potentially higher environmental and social risk. DEG closely supports the enterprises for the entire duration of its commitment and monitors implementation of the action plans. Should any issues arise, solutions are worked out jointly with the enterprises concerned.

An evaluation study, published in 2017, provides evidence of the positive impact of DEG's support. The study examined environmental and social management at the banks and funds in receipt of DEG finance. It showed that these DEG customers continuously broaden their management of environmental and social risks and improve its structure.

In 2017, DEG's customers also received targeted advice on the issue of corporate governance. Concrete measures designed to improve corporate governance were agreed. Over the medium term, these should contribute to sustainable business success. The evaluation of the corporate governance of enterprises was further refined as part of DEG's existing lending processes. Members of staff were trained accordingly.

Also in 2017, DEG again supported sustainability initiatives in relevant sectors and regions. For example, its cooperation with the Sri Lanka Banks' Association (SLBA) was further extended in 2017, with a focus on training for bank employees and advisers, and the creation of an e-learning platform.

DEG also acts in an environmentally responsible way in its own operations. In addition to the health and safety of its staff, the sparing use of resources is a priority. All CO_2 emissions generated by operating the buildings, and by business travel, are offset by the purchase and retirement of emission credits, as part of the KfW Group's policy of carbon-neutral operations.

Personnel

At the end of 2017, DEG retained 570 employees (2016: 539). Of these, 396 were staff outside regular pay scales – including 48 senior executives – and 174 were staff on regular pay scales, including 13 apprentices. Of the employees, 125 were employed part-time (2016: 116). A total of 308 members of staff (54%) were women (2016: 52.5%). The average age was 43.7 years (2016: 43.6). The proportion of severely disabled people was 3.7% (2016: 2.5%). A total of 20 members of staff were employed in DEG's representative offices along with 44 local experts.

The proportion of women in leadership roles in 2017 was 33.3%. This represents a further increase over the previous year's high level (2016: 30.8%).

Members of staff at DEG retain access to a comprehensive range of qualification measures within their own fields and beyond. Some of these are carried out in cooperation with KfW and EDFI. In the year under review, DEG invested a total of EUR 1.2 million (2016: EUR 1.1 million) in training, in professional development for specialists and senior executives, and in talent management.

For junior employees, DEG offers trainee programmes in the fields of financing, risk management, financial controlling and IT. In 2017, it added a training programme for qualified bank clerks.

DEG again provided scholarships for students at both Cologne University and the University of Applied Sciences, Cologne in 2017. As well as twelve national scholarships, it provides three scholarships for disabled students and three for socially disadvantaged students.

Staff remuneration is governed by the corporate agreement on "Salary determination and remuneration at DEG". At the beginning of the new financial year, DEG enters into, among other things, a personal goal agreement with each member of staff, based on the corporate agreement on "appraisal interviews". The specified goals are based on, among other things, DEG's business goals as agreed with KfW, its business strategy and its risk strategy. For both staff on regular pay scales and staff outside such scales, the remuneration system provides for limited performance-related, variable remuneration components. Care has been taken to ensure that the variable remuneration elements do not create dysfunctional incentives.

With the introduction of job families in July 2017, the previous Hay Job Evaluation system was removed and replaced by a more up-to-date system.

Members of DEG's Management Board receive a management bonus that depends on achieving defined quantitative and qualitative targets. Payment of this bonus is phased over three years, provided the targets have been sustainably met.

The summary below shows DEG's remuneration structure.

DEG's social benefits include a corporate pension scheme, group accident insurance, building loans, recuperation allowances, benefits in case of illness and emergencies, free passes for travel on public transport, a childcare allowance and comprehensive occupational health management services.

Declaration on corporate governance pursuant to Section 289a (4) of the German Commercial Code HGB

The "Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sectors" of 24 April 2015 obliged enterprises listed on the stock exchange, or with worker co-determination, to establish targets for female representation among their managing directors. This also applies to the two executive levels below the Management Board as well as to the Supervisory Board.

In order to fulfil these statutory obligations, the targets to be achieved by 2021 for female representation in leadership positions on the two management levels, as per Article 36 of the Law on Limited Liability Companies (GmbH-Gesetz), were set at 22% for the first management level (divisional heads) and 30% for the second management level (department heads). Both targets were met in 2017, with 22.2% being achieved at management level one, and 35.9% at level two.

On this basis, targets and fulfilment deadlines for the Management Board and the Supervisory Board were set at the 223rd meeting of the Supervisory Board on 19 June 2017.

Remuneration 2017

	Number of employees (number of recipients of variable remuneration)	Total fixed salaries (gross) in EUR million	2016 management bonus (for performance in 2016) in EUR million	2017 bonus (for performance in 2016) in EUR million
Staff on regular pay scale	192[1] (129 recipients)	7.8		0.5[2]
Staff outside regular pay scale	406[1] (368 recipients)	32.9	5.5	
Management Board	3 (3 recipients)	1.0	0.2	

[1] The number of employees comprises all persons active in 2017, including any who left over the course of the year. Recipients takes into account all members of staff who received variable remuneration in 2017, due to having achieved their agreed performance targets.

[2] Based on the corporate agreement, the bonus amount includes a guaranteed bonus of the one half of monthly salary plus a possible variable bonus.

For both bodies, the target is 33% and 1 June 2022 was chosen as the fulfilment deadline for both. The two targets were met in 2017, when female representation on the Management Board and the Supervisory Board was 33.3% and 42.9%, respectively.

ECONOMIC REPORT

Business environment

For the first time since its brief upturn in 2010, the world economy was again in full-blown recovery mode in 2017. As a result, global growth rose to 3.7% (2016: 3.2%). The unexpectedly strong upturn in the global economy is mainly due to the fact that, from the point of view of market participants, several major risks have receded. For example, the Chinese government managed to prevent a significant slump. Moreover, the extensive protectionist measures announced by the US government have yet to materialise.

The main contribution to the upturn in the global economy came from the industrialised nations, with 2.3% growth (2016: 1.7%). Thanks to increased confidence and an improved credit supply, the recovery of the economy, especially in the eurozone, was strong; it grew by 2.4% in 2017 (2016: 1.8%). In developing and emerging market countries, the picture in 2017 was mixed, although growth has spread to more countries than in previous years. Overall, the economy of this group of countries grew by roughly 4.7% in 2017 (2016: 4.4%).

Asian countries (without Japan) recorded GDP growth of 6.5%, once again making them the fastest-growing group of countries. While the Chinese economy grew by 6%, increased foreign demand led to a more dynamic economic development in the other countries of the region. Only in India did the economy weaken, a trend linked to the country-wide introduction of VAT.

In Latin America, the development of the economy improved in 2017 compared to the previous year. Brazil managed to move out of its economic slump, with strong exports and virtually stable domestic consumption enabling renewed economic growth in 2017 – for the first time after eight quarters of decline. In Argentina, too, there is evidence of a clear economic upturn. The Mexican economy also produced unexpectedly positive results in 2017, since the feared slump in investment due to the change in US policy did not materialise. The region as a whole grew by 1.3% in 2017 (2016: –0.7%).

Growth in European countries outside the EU increased by 5.2% in 2017. This was mainly thanks to a stronger than expected rise of 5.1% in Turkey's economic performance. Key factors were a recovery in the tourism sector and monetary easing, which had political support.

The Commonwealth of Independent States recorded economic growth of 2.2% in 2017 (2016: 0.4%). This favourable development was possible because Russia came out of recession, thanks to higher levels of private consumption and a fall in inflation. It grew by 1.8% in 2017.

The economy of Sub-Saharan Africa also recovered in 2017, with GDP growth reaching 2.7% (2016: 1.4%). However, there are stark differences between individual countries. While the 23 countries that are exporters of raw materials – including Nigeria, Angola and South Africa – were still struggling to adapt to the drop in oil revenue and foreign exchange earnings, some of the remaining 22 countries recorded good rates of growth.

The Middle East and North Africa region also recorded GDP growth of 2.5% in 2017. Economic development in the oil-exporting countries continued to be determined by the relatively low oil prices, which occasionally dropped well below the level required to fund government expenditure. While the region's oil importers benefited from the fall in import costs for oil, they suffered from the reduction of capital flows from the oil-exporting countries.

The upturn in 2017 was the most wide-ranging of the last decade, taking in three quarters of the world economy. But countries that export raw materials continued to struggle with the need to adapt to lower prices. Many countries in the Middle East, in North Africa, Sub-Saharan Africa and Latin America also suffered political unrest. These are frequently the same countries that are most seriously affected by climate change.

In keeping with its mandate as a development finance provider, DEG continued, in 2017 as in previous years, to operate at a complementary level wherever long-term financing for private-sector enterprises is unavailable in the market or in short supply.

Business development

In 2017, the financing and advisory services offered by DEG were again in great demand. With new commitments of EUR 1,551.4 million, it was able to build on the previous year's very high volume (2016: EUR 1,553.4 million). In 2017, most DEG financing was again committed in USD, so the result is especially pleasing in the context of the US dollar's weakness.

In the year under review, DEG committed financing for 111 investment proposals (2016: 94). These commitments, a key performance indicator, have enabled entrepreneurial investments with an overall volume of EUR 11,271.3 million, a significant increase over the previous year (2016: EUR 6,550.7 million).

The volume of commitment (total of commitments paid out and new commitments on own account approved but not yet paid out) is another key performance indicator for DEG. In 2017, it was EUR 7,246.7 million (2016: EUR 7,731.0 million). The fall is mainly caused by the continuing weakness of the US dollar as well as, to a lesser extent, by early repayments.

The volume of commitment was spread across 672 involvements in 83 partner countries; it displayed a largely stable risk structure. At EUR 1,167.5 million, disbursements (own business) in 2017 slightly exceeded the previous year's figure of EUR 1,042.9 million.

By DEG customer cluster, financial institutions and project financing increased considerably in 2017 compared to the previous year. Financing for corporates was at a roughly average level, whereas 2016 had seen a very large number of new commitments.

German corporates are one of DEG's main customer groups. In 2017, it reached more than 130 German corporates with its financing and promotional programmes. It made EUR 436.1 million in equity finance available to them for proposals in emerging market and developing countries (2016: EUR 252.5 million). As well as loans and participating interests for German direct investments, this also includes providing financing to local enterprises for the purchase of German components either directly or via local banks. DEG provided a further EUR 26.7 million to 98 German corporates via promotional programmes (2016: EUR 15.7 million for 93 German corporates).

The proportion of newly committed financing for small and medium-sized enterprises (SMEs) and medium-sized businesses ("Mittelstand") came to an encouraging EUR 829.8 million in 2017 (2016: EUR 870.6 million). So more than half of all commitments went to this customer group. Commitments for risk capital financing – equity participations and loans with equity features – amounted to EUR 563.0 million in 2017 (2016: EUR 470.0 million).

In total, EUR 556.2 million of new commitments in 2017 were for proposals that promoted protection of the climate and the environment (2016: EUR 561.9 million). Investments in climate protection accounted for EUR 436.5 million of this (2016: EUR 439.0 million). Proposals for the development of renewables, especially solar energy, were prioritised.

By continent, most financing in 2017 again went to Asia, with an increase of around 18%. New commitments for Latin America were at the same level as the previous year. In Africa, DEG's new business fell back in 2017. This was in part due to the ongoing effects of difficult investment conditions generally. In 2017, as in 2016, financing commitments were spread across 44 countries.

Of the new commitments, lendings accounted for EUR 1,076.0 million (2016: EUR 1,115.4 million), of which EUR 87.6 million was arranged as loans with equity features (2016: EUR 32.0 million). Newly committed lendings in USD equated to EUR 1,188.9 million (2016: EUR 1,148.2 million). EUR 475.4 million of new commitments were equity participations (2016: EUR 438.0 million).

Promotional programmes and advisory services

With its promotional programmes, DEG supports mainly German and European enterprises with their involvements in developing countries. In 2017, a total of approximately EUR 32.2 million was available for the promotional programmes carried out by DEG (2016: EUR 30.2 million). New commitments were made for 173 projects (2016: 180), of which 98 involved German corporates.

In 2017, a total of EUR 24.9 million was made available to co-finance measures under the programme "Development Partnerships with the Private Sector" operated by the Federal Ministry for Economic Cooperation and Development (BMZ). The money went to develoPPP.de, the special initiative "develoPPP. One World, No Hunger" (SE-WOH), to feasibility

New commitments by customer cluster in EUR million

Year	Corporates	Financial institutions	Funds	Project financing	Total
2017	276.4	555.2	349.1	370.7	**1,551.4**
2016	578.8	433.1	310.1	231.4	**1,553.4**

New commitments by region in EUR million

Year	Asia	Latin America	Africa	Europe/ Caucasus	Supra-regional proposals	Total
2017	600.6	501.8	264.9	85.3	98.8	**1,551.4**
2016	511.6	506.7	331.3	107.5	96.3	**1,553.4**

studies, Business Support Services, “Up-Scaling”, “German Desks” and the Agency for Business and Economic Development (AWE).

The “Business Support Services” programme, devised by DEG, offers tailor-made advisory solutions for customers. The aim is to improve the businesses’ performance, reduce financing risks and boost developmental impacts. BSS advice services are an integral part of DEG’s product range.

The programme “Climate Partnerships with the Private Sector”, operated on behalf of the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), aims to develop climate-friendly technologies in developing and emerging market countries.

Financing in cooperation with other development finance institutions

DEG also works with partners to finance entrepreneurial investments. Since 2003, the co-financing vehicle “European Financing Partners” (EFP), operated by the European Investment Bank (EIB), by DEG and by twelve other EDFI members, has supported private-sector investments in countries in the African, Caribbean and Pacific regions (ACP). Eleven EDFI members, the European Investment Bank (EIB) and Agence Française de Développement (AFD) are also partners in the “Interact Climate Change Facility” (ICCF). This was founded in 2011 to finance private-sector proposals with a beneficial impact on the climate. Since they were set up, EFP and ICCF have jointly made funding for private-sector investments of almost EUR 2 billion available.

In the context of its close cooperation with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of the Netherlands and Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) of France, DEG entered into 38 commitments (2016: 22) with a total volume of EUR 1.28 billion in 2017 (2016: EUR 860.2 million). DEG’s share of the financing came to EUR 441.8 million (2016: EUR 274.1 million).

In 2017, in addition to deploying its own funds, DEG acted as “lead arranger” and actively mobilised EUR 247 million for 15 commitments with development banks and institutional investors from the private sector. EUR 73 million of this came from private investors.

STATUS REPORT

Profitability

In 2017, DEG achieved a positive pre-tax operating result of EUR 103.6 million, slightly less than in the previous year. This was mainly due to a fall in interest income and an increase in administrative expenses. In part, this was offset by income from the disposal of participating interests, which was higher than in the previous year, by a lower level of provision for risk and by a positive valuation effect from currency.

The interest surplus in the financial year under review came to EUR 185.7 million (previous year: EUR 220.8 million). The fall is mainly due to USD exchange rate effects.

In 2016, exchange rate effects from interest were still being shown as interest income. However, as part of a change in presentation, these effects will, in future, be accounted for under valuation effects from currency. This explains why the previous year’s interest income was boosted by the sharp appreciation of the USD in 2016, whereas the interest income for the financial year under review is shown as adjusted for exchange rate effects.

Very little other interest and similar income accrued in the year under review.

Promotional programmes

EUR million	2017	2016
DEG own funds	3.4	4.5
BMZ	24.9	21.7
of which develoPPP.de	15.6	15.2
BMUB	1.6	0.9
Gates Foundation	2.3	3.1
Total	**32.2**	**30.2**

The result from participating interests for 2017 was EUR 146.5 million, a substantial rise compared to the previous year's figure of EUR 125.8 million. While there was a slight reduction of around EUR 2.5 million in income from dividends, the increase resulted from the successful disposal of individual participating interests in the amount of EUR 113.8 million. Of this, 49% relates to direct investments and 51% to funds.

Other operating income of EUR 20.0 million was lower than the previous year's figure of EUR 26.5 million. This item is made up of income in the amount of EUR 9.3 million from commissions or fees on existing loans and receivables, and other earnings in the amount of EUR 10.7 million from the provision of advisory services and reimbursements from trust funds. The fall was mainly the result of a one-off extraordinary gain of EUR 5.9 million in 2016 from the sale of a conversion right.

Staff costs for the year under review amount to EUR 68.4 million. The increase over the previous year's figure (2016: EUR 56.7 million) is mainly caused by the change in provisions for pensions. In 2016, EUR 0.7 million of provision for pensions was written back, mainly because of the statutory adjustment of the applicable average interest rate. As a result, a net allocation of EUR 8.8 million is shown for the year under review. This includes an effect of EUR 1.7 million resulting from adjustment of the salary trend, and an effect of EUR –2.0 million caused by a change in the calculation.

To account for the risks arising from the economic climate, which remains difficult, the net transfer to risk provision in the year under review was EUR 126.4 million (2016: EUR 136.8 million). Of this, EUR 28.6 million was allotted to the loans and receivables portfolio, EUR 11.0 million to irrevocable credit commitments and EUR 86.8 million to the participating interests portfolio. Resulting mainly from the sharp depreciation of the USD, the net currency gain of EUR 42.6 million from risk provision in respect of loans is itemised under valuation effects from currency. The result from currency conversion in respect of participating interests falls under the risk provision result.

In the loans business, the net transfer to risk provision dropped considerably compared to the previous year. In the

German accounting standards P&L – economic presentation

EUR million	**2017**	**2016**
Income from lendings	234.8	255.6
Other interest and similar income	0.8	8.4
of which income from interest rate hedging	0.0	6.2
Interest payable and similar charges	–49.9	–43.3
Interest surplus	**185.7**	**220.8**
Income from disposals[1]	113.8	90.6
Income from dividends[2]	32.7	35.2
Result from participating interests	**146.5**	**125.8**
Remaining other operating income[3]	**20.0**	**26.5**
Staff costs	–68.4	–56.7
Non-staff costs[4]	–63.4	–57.2
Administrative costs	**–131.8**	**–113.9**
Operating result before provision for risk and valuation effects from currency	**220.4**	**259.2**
Net provision for risk write-up (+)/write-back (–)	–126.4	–136.8
Valuation effects from currency[5]	9.6	–11.1
Profit for financial year before tax	**103.6**	**111.3**
Taxes	–9.8	–15.0
Transfer/withdrawal from purpose-tied reserve fund	0.0	3.5
Net income	**93.8**	**99.8**

1) Itemised in P&L as "Other operating income".
2) Itemised in P&L as "Income from participating interests".
3) Itemised in P&L as "Sales revenue" and "Other operating income and/or charges" without income from the disposal of participating interests.
4) Itemised in P&L as "Cost of services purchased", "Depreciation of tangible assets" without valuation effects from currency, and "Other operating charges".
5) Itemised in P&L as "Other operating income and/or charges".

year under review, there were fewer non-performing commitments. For some individual commitments, a sustained decline in earnings development or earnings expectations, due to oversupply or price erosion in the companies' markets (some dependent on raw materials), led to risk provision being made for the first time. Flawed entrepreneurial decisions and faulty liquidity management on the part of companies also gave rise to a need for risk provision. A certain concentration of risk provision for Asia was observed. As a result of continuing unfavourable economic developments, risk provision had to be increased for some commitments that were already non-performing. In some cases, the increase was considerable. However, this was offset by write-backs of risk provision from restructuring or winding up, so even in the portfolio of loans already in default, a lower level of net provision was recorded overall.

Transfers in the participating interests business were necessitated by, in some cases, seriously adverse developments affecting individual commitments throughout the world. For these commitments, lower earnings expectations, a downward trend in capital market development and delays in business development led to risk provision. The devaluation of local currencies also had an influence on risk provision.

Despite the sharp devaluation of the USD, a positive valuation effect from currency of EUR 9.6 million was achieved overall. The reason for this was mainly the surplus of liabilities from hedging derivatives in respect of the valuation unit used to hedge the USD loan portfolio. A valuation unit established in 2017 to hedge the exchange rate risk for participating interests in US dollars of USD 180 million displayed no significant net effect. The remaining exchange rate effects from the participating interests portfolio are accounted for under the result from risk provision. As a matter of principle, DEG only includes the book values in the valuation units. In relation to USD currency control, DEG has decided not to account for future interest or dividend payments in the valuation units.

Financial position

In the past financial year, cash inflows from loan repayments (EUR 1,145.0 million), disposals of participating interests (EUR 140.9 million) and cash gains from the operating result were used to make investments in partner countries and in bonds and notes under current fixed assets of EUR 1,167.5 million. The debt capital was repatriated.

Debt capital was raised solely from KfW in the form of borrowers' notes and overnight loans. In 2017, EUR 1,987.9 million in funds was raised in total and EUR 2,151.6 million repaid. Debt capital is raised based on a refinancing agreement with KfW.

Under this refinancing agreement, KfW provides DEG with refinancing funds with a term of more than one year in USD, EUR, GBP and CHF, on the dates specified by DEG and at KfW's refinancing rate, plus an internal transfer price set by KfW.

DEG was solvent at all times in 2017.

Net worth position

Taking into account the effects from currency conversion, accruals to investments in partner countries in 2017 amounted to EUR 1,444.1 million in total. Disposals came to EUR 1,955.3. At original cost, investments in partner countries fell by EUR 1,511.3 million to EUR 5.473,6 million.

DEG continued to invest mainly in developing its financial architecture to create an IFRS 9-compliant system, and in expanding its office space in view of a need for extra capacity.

The rise in other assets is mainly due to excess prepayment of corporate taxes, although there are also other countervailing effects. The significant drop in other amounts owed, from EUR 103.5 million to EUR 71.8, arises from a change to the balancing item for accountancy purposes for the valuation of securities derivatives from the loans valuation unit. On the one hand, the hedging volume was reduced by around USD 200 million in 2017; on the other hand, the significant USD devaluation in 2017 led to a reduction of the balancing item for accountancy purposes.

Taking into account the profit for the financial year of EUR 93.8 million, equity increased to EUR 2,461.7 million.

Compared to the previous year, business volume (balance sheet total without trust business) fell by EUR 471.9 million to EUR 5,302.5 million.

The equity radio (ratio of equity to business volume) rose from 41.0% to 46.4%, a marked increase. The pre-tax return on equity (ratio of annual net profit before tax to average equity), a key performance indicator, was 4.3% in 2017, placing it in the satisfactory range. As expected, this results in a good three-year average for 2015–2017 of 4.6%.

OPPORTUNITY AND RISK REPORT

Opportunity management

Against the backdrop of the global sustainability agenda 2030 agreed by the United Nations, the promotion of the private sector is of major and growing significance in national and international development cooperation. At the same time, there is increasing demand from private-sector enterprises for services that go beyond financing to include solutions to environmental, governance and social issues. These trends offer additional opportunities for DEG's development business. They go hand in hand with an increased input into achieving the globally agreed sustainability goals.

As a private-sector development finance institution, DEG takes advantage of the opportunities that arise. It does so within the regulatory framework, by offering businesses specific financing and advice solutions, differentiated by customer clusters.

With this purpose in mind, DEG's front office departments continuously identify and analyse suitable opportunities. These are taken up after coordinating with the Management Board and the relevant bodies. Long-term opportunities are worked up jointly with the Corporate Development Division, and included in DEG's annual strategy review process. In this connection, three goals have been defined: a sustainable return, a business that has an impact on development, and a comprehensive offering to the German economy. The overall aim is to strengthen DEG's risk-bearing capacity in order to fulfil its development policy mandate over the long term.

With its expanded range of financing and advisory services, DEG is able to offer needs-based solutions to meet its customers' requirements, which vary by region, as in other ways. DEG is an important provider of long-term loans, and increasingly of risk capital, especially for enterprises in Africa and in other IDA and (post-)conflict countries. Linked to this is its role in sending a signal and mobilising others.

Extra potential is also seen in supporting German business abroad. The "German Desks" in selected partner countries are one way of providing this assistance. Given the global trends towards urbanisation and digitalisation, there are extra opportunities with regard to the Project Financing customer cluster in, e.g. the water supply, transport and communications sectors. Additional business potential is also seen in the customer segments Financial Institutions and Funds. For instance, there are plans to expand the participating interests business with special finance providers, and tap into new customer groups with innovative business models. DEG is also seeking to achieve greater regional diversification of the funds business, especially in Africa and Asia.

Closely interlinked with financing, the promotional and advisory services, such as the "Business Support Services", assist DEG customers in further improving their performance in relation to business management as well as environmental and governance matters. Additional developmental impacts may also be achieved as a result.

The systematic switch to portfolio-oriented risk-return management is designed to ensure that opportunities are recognised at an early stage. Special attention is paid to the potential of follow-up business with existing customers.

At individual transaction and portfolio levels, opportunities also arise from restructuring in the non-performing section. Here, qualified portfolio management ensures that these opportunities are seized.

Risk management

Overall responsibility for risk management rests with the Management Board. It sets the risk strategy every year, taking into account the goals and plans relating to the main business activities, as laid out in the business strategy. The risk strategy is first presented to the Supervisory Board. On the Supervisory Board's recommendation, it is subsequently agreed by the Shareholders' Meeting before being adopted by the Management Board.

The Supervisory Board advises and monitors DEG's Management Board in its running of the business. In this, it is supported by its committees. These are: the Risk and Credit Committee (responsible for risk issues and the approval of credit applications); the Executive and Nomination Committee (personnel issues and questions of principle); the Remuneration Control Committee (remuneration matters) and the Audit Committee (which deals with accounting issues, financial matters and risk management, and is also responsible for regular reporting by Internal Audit and the auditors). Measures and transactions of vital significance require the express agreement of either the Supervisory Board or the Risk and Credit Committee.

The Risk and Credit Committee and the Supervisory Board receive quarterly reports on DEG's risk situation, while the Shareholder is updated via monthly reports.

In the year under review, DEG's Internal Audit scrutinised, among other things, the processes and methods involved in its risk management system. The priorities were: to review the concept of risk-bearing capacity, the implementation of groupwide targets, processes involved in operational and organisational structure, validation planning, processes involved in preparing the business and risk strategies, stress testing and capital planning. Measures due in the year under review and any recommendations by Internal Audit were implemented.

The Risk Management Committee (RMC), which meets at least quarterly, is the main in-house body that discusses and decides on issues relevant to risk, or makes recommendations and preparations which enable the Management Board to take the decisions. The RMC deals specifically with: basic issues relevant to risk, as embodied in the risk strategy; with risk culture, risk inventory, risk-bearing capacity, stress testing and the introduction and/or evaluation of new products. The RMC additionally deals with matters relating to the measurement, reporting and management of: credit, market price, liquidity, operational and other risks.

The Credit and Equity Risk Committee (CERC) is the main joint body, involving both front and back office, which manages DEG's credit risk (from loans and participating interests). CERC advises the front and back office departments that are responsible for new business and inventory management. It also provides guidance on issues affecting credit risk and advises the Management Board. The continuous refinement and improvement of credit risk processes contributes to safeguarding DEG's earnings and net worth position.

DEG is represented in the corporate bodies that deal with risk management at KfW and hence integrated into the group's co-ordination processes.

DEG is exempt from key requirements of the German Banking Act (KWG). However, in addition to subscribing to KfW's basic corporate risk principles, which apply across the group, it voluntarily complies with the standards of the Bank Supervision Act, in particular the Minimum Requirements for Risk Management (MaRisk).

In keeping with MaRisk provisions, the design of DEG's organisational structure ensures that the Market and Trading front office divisions, up to and including Management Board level, are separate from the back office divisions or functions.

Risk management requirements, as defined by risk controlling, are applied specifically in the front office Market and Trading divisions. In the context of their business activities, they not only bear primary responsibility for risk and earnings, but also for DEG's customers and products.

The back office and non-market-dependent divisions are responsible for, among other things, risk controlling (risk strategy, methodology, evaluation, reporting and market conformity review), credit management (allocation of responsibilities in the credit business, preparation/approval of ratings, second vote, ownership of intensive support methods and processes, non-performing loans (restructuring, disposal)) and transaction management (processing of commercial transactions, payment transactions and custody).

The compliance function is part of risk management as per MaRisk AT 4. Responsible entrepreneurial action is based on complying with rules and laws. DEG's compliance management is designed as integrated, process-oriented non-financial risk management. It ensures risk transparency and risk mitigation by applying individual compliance sub-functions, which monitor the propriety of business activity. These are specifically: MaRisk compliance as per MaRisk AT 4.4.2: prevention of money laundering and fraud; monitoring the observance of financial sanctions and protecting against the financing of terrorism; data protection, information security, operational continuity management and the monitoring of operational risks.

The MaRisk compliance function identifies compliance risks that may result in endangerment of DEG's assets, and evaluates the associated implementation of appropriate and effective measures. The process-integrated monitoring, carried out under the Internal Control System (ICS) in order to mitigate risks, ensures compliance with the key requirements governing proper business activity, and identification of risks inherent in the processes. It also ensures that the installed controls are applied (ICS testing).

Risk strategy

Key types of risk are identified in an annual risk inventory. The following distinct risk types are significant for DEG: credit risk in the wider sense, market price risk, liquidity risk and operational risk. Credit risks are top of the list, given DEG's business model. Under the business model, financing is mainly provided in foreign currency, so foreign currency risk is another significant factor in its risk profile.

As part of DEG's strategy process, the risk strategy is drawn up to reflect the key risks that arise from its business strategy. The risk strategy covers management of the risks associated with DEG's main business activities, and lists measures to meet each risk target. It includes statements on risk appetite and risk-bearing capacity, taking into account risk and earnings concentrations, and establishes general conditions for operational risk management. The risk strategy illustrates the planned long-term approach by which the risk targets, as defined, are to be met.

The aim of the risk strategy is to limit possible adverse developments affecting DEG. It is the result of strategic planning and covers a medium-term planning period. Quantitative requirements (budgets, limits) are defined for a one-year period. Risk-bearing capacity is assessed over a period of several years and includes a scenario featuring an adverse development (capital planning). Since the risk strategy is drawn up in conformity with KfW's guidelines, DEG can be sure that both its risk strategy, and the risk management measures derived from it, are consistently embedded within KfW's group-wide risk strategy.

The risk strategy is carried out by means of installed management processes and instruments. Monitoring is performed monthly in the course of risk reporting. Where deviations from the risk strategy occur, the causes are analysed and commented on, recommendations for action are derived and measures agreed and implemented.

DEG's risk strategy goals are: to maintain its economic risk-bearing capacity at the defined economic solvency level, and to meet the supervisory authority's requirements for equity capital, as per the Capital Requirements Regulation (CRR) and KWG, with which DEG complies voluntarily. On this basis, and taking into account the risk limits and qualitative requirements specified in its risk strategy, DEG decides whether risks are to be accepted, reduced, limited, avoided or transferred.

Risk-bearing capacity

DEG's risk-bearing capacity is determined and monitored monthly under economic aspects (gone concern approach), and quarterly under regulatory aspects. For both views, minimum equity capital requirements are defined and must be observed. These requirements apply both in target date view, as well as over the multi-year period involved in capital planning (baseline and adverse scenario). The solvency level for economic risk-bearing capacity is defined as 99.96%.

Article 26 of Germany's Capital Requirement Regulation (CRR) defines regulatory risk coverage as the core capital, i.e. paid-up share capital including retained reserves, taking deductible items into account. DEG takes the (as yet) unapproved quarterly result or, if applicable, the profit for the financial year into consideration in risk coverage. Economic risk coverage comprises the whole of DEG's core capital.

The economic capital requirement is established for all significant, distinct types of risk, and compared to the risk coverage for a gone concern approach. The future outlook is considered by simulating risk-bearing capacity over a one-year period under downturn and stress conditions (going concern view). In addition, risk-bearing capacity under ideal going concern conditions is calculated annually.

The economic capital required for credit risks arising from the financing business, as well as from the derivatives business and temporary investments (counterparty risks), is calculated using a credit portfolio model (Internal Ratings Based Approach (IRBA) formula), as per the CRR. The level of economic capital depends on individual borrower ratings and product-dependent loss ratios. Counterparty risks largely relate to KfW.

The economic capital requirement for market price risks (interest rate and foreign currency risks) is measured and managed using Value at Risk (variance/co-variance approach), with a solvency level of 99.96%. The risk rating is based on the present value of any portfolio positions subject to interest rate and foreign currency risks. Present values are determined daily. All cash flow components are considered for which an impairment, due to a change in market price, may lead to the erosion of risk coverage. In risk measurement, the cash flows are declared due on the next date on which the customer has the option of terminating. This is in keeping with a group requirement. The calculation of Value at Risk is additionally based on the following model assumptions: 1) normal distribution of profits and losses, 2) mean value of distributions is zero, 3) linear dependence between present-value changes in the portfolio and changes in risk factors, 4) correlations between interest rate and currency risks not taken into account, 5) risk horizon for liquid currencies of two months (42 days) and 6) one-year risk horizon for non-liquid currencies (252 days).

For operational risks, DEG's individual business activities in defined business areas are weighted with special risk factors when calculating capital requirements, as required by BaFin in the standard approach under Basel II rules. DEG's business is currently held to fall under the regulatory business lines Corporate Banking and Corporate Finance/Advice.

The calculation of regulatory equity capital requirements, using the standard approaches in accordance with the CRR, takes into account credit risk, foreign currency risk and operational risk.

Compared to 2016, there was no significant change in risk situation and risk-bearing capacity. The increase in foreign currency risk is balanced out by a reduction in credit and interest rate risks.

Stress tests

DEG carries out quarterly standard stress tests and deploys individual stress test scenarios, as warranted by events, in order to assess and analyse the impact on the risk-bearing capacity of potentially adverse overall economic conditions, taking risk concentrations into account.

The stress tests cover different types of risks, specifically credit risk, market price risk and operational risk. DEG performs calculations for two scenarios. For each one, it calculates the effect on P&L and the required economic and regulatory capital, and arrives at the impact on risk-bearing capacity as a result. In the downturn scenario, the analysis is designed to show which recognisable risk potentials might materialise in a slight economic downturn. The stress scenario assumes a serious recession.

In devising its stress scenarios, DEG draws on the results of its measurement of risk concentrations and of its "Heat Map". In 2017, DEG selected the scenarios "US protectionism", "Economic slowdown and rising credit defaults in China" and "China: debt crisis in the regions" as event-based stress tests when it performed its calculations. In all scenarios, DEG was able to demonstrate a good level of risk-bearing capacity.

DEG additionally carries out reverse stress tests to analyse which scenarios might lead to the total erosion of its unallocated risk coverage. For this purpose, it is assumed that risk factors are subject to unlikely, but plausible changes and shocks.

The selection of scenarios and the results of stress test calculations are discussed in the RMC. All the results are used to assess risk-bearing capacity and taken into account in medium- to long-term planning.

The analysis of risk-bearing capacity under stress conditions showed that the risks undertaken by DEG were tenable, both on the effective date of 31 December 2017 and at all times throughout the year.

Types of risk

The following distinct risk types are rated as significant for DEG's business activities in its risk inventory:

Credit risk
Credit risk (in the wider sense) includes the risk of a possible deterioration of creditworthiness, with default by the contractual partner as a special case. Counterparty default risk (including counterparty risk, securities risk and country risk), the risk from operational participating interests, migration risk and settlement risk are subsumed under credit risk in this wider sense.

Because DEG's business model is shaped by development policy, its portfolio mix – as it relates to the country and credit risk classes of its commitments – displays a structurally high risk content.

As the breakdown of the volume of commitment by region and by industry shows, DEG's risk policy positioning creates concentrations in its portfolio. Overall, the distribution by region is not critical in terms of risk.

Distribution by industry displays concentrations mainly in the financing of financial institutions (proportion of banks and insurance companies: 31.22%; proportion of funds: 22.91%) and for enterprises in the energy sector. To restrict such concentrations, DEG has defined limits at country level for these industries.

DEG has additionally defined limits at institutional level for individual counterparties, groups of associated customers, and countries. The limits are defined according to DEG's earnings and equity capital situation, and determine the scope for the implementation of its business strategy. Beyond that, DEG is integrated into KfW's corporate system of limits. Existing limits must be observed, whether set by DEG or by the group. Acute risks in countries and sectors are additionally limited based on risk guidelines prescribed by the group. These use a traffic light system to monitor and manage transactions in the markets affected.

Breaches of the limits are analysed according to the rules laid down in the Risk Manual, reported to the Management Board and listed in the risk report. When limits are breached, possible actions are devised and measures implemented, or their implementation addressed. For most of its business, DEG applies KfW's corporate rating methods for banks, corporates, equity funds and countries. These methods are validated on a group-wide basis. For a smaller proportion of its business, DEG applies its own rating methods, which are validated according to its own model validation policy.

For all commitments, a ratings review is carried out at regular intervals, or if early warning indicators are present. As from an M 16 rating, intensive support kicks in. This includes closer supervision of the commitment, as well as measures designed to safeguard the assets. In the loans portfolio, interest and redemption payments are continuously monitored, in order to extrapolate possible early warning indicators. Where serious disruptions have occurred, the commitment moves on to be managed as a non-performing asset. Such disruptions include, e.g. persistent payment arrears (more than 90 days), the well-founded suspicion of criminal conduct on the part of borrowers, or other circumstances leading to the expectation that fulfilment of the contract by the partners is at risk. As required by the regulator, management of a non-performing asset is carried out by specialist staff and is designed to stabilise or wind up the commitment, though not necessarily the enterprise. The department responsible reports at least quarterly on the development of non-performing commitments and any insights gained.

The non-performing obligo (volume of commitment with an M 19 or M 20 rating) fell in 2017, both in absolute and percentage terms. As at 31 December 2017, the non-performing obligo amounted to EUR 593 million (8.2% of the portfolio),

Risk-bearing capacity

EUR million	31.12.2017	31.12.2016
Economic capital requirement	**1,254**	**1,273**
Credit risks	870	919
Market price risks	316	290
of which interest rate risks	29	76
of which foreign currency risks	287	214
Operational risks	68	64
Economic risk coverage	**2,455**	**2,362**
Unrestricted equity	1,201	1,089

a drop of EUR 83 million compared to the previous year (31 December 2016: EUR 676 million; 8.7% of the portfolio).

To measure the risk provision required in individual cases, and using the evaluation tools available, a determination is carried out at regular intervals and on an event-driven basis, e.g. as soon as any depreciation has been identified. The aim is to establish the need for specific loan loss provisions in respect of amounts owed on loans and participating interests, or the need to make individual provisions for probable losses from guarantees. Provision is also made in the form of a portfolio value adjustment, based on the expected loss. Additional remarks describing the method of making risk provision can be found in the appendix under Accounting/valuation criteria.

If the economic outlook in its investment countries should deteriorate, DEG would run the risk of a worsening outlook for restructuring or winding up. In that case, risk provision might prove inadequate.

Market price risk

In DEG's case, market price risks are confined to the asset book. Market price risk includes interest rate risks, foreign currency risks, credit spread risks from securities and basis risks. Key types of market price risk for DEG are interest rate risk and foreign currency risk.

In the year under review, the risk values (Value at Risk) for interest rate risk, supplied by KfW at the end of each month, were adopted by DEG and maintained unchanged for the entire month. DEG itself calculated the currency risk daily. The economic capital requirement for interest rate and foreign currency risk is made up of a stop-loss buffer for cumulative present-value losses over one year, and the possible present-value loss that may additionally occur when a position is closed (Value at Risk).

Of primary relevance to risk management is economic risk-bearing capacity, and hence the economic capital requirement per risk type. Where 90% of the stop-loss limit has been reached, management of the position requires the express consent of the Management Board. If the limit is breached, DEG's Internal Audit and KfW must be informed.

A daily risk report ensures that market price risks are continuously monitored at DEG. This is supplemented by a more detailed monthly risk report and by an installed process for ad-hoc reporting when limits have been breached.

Volume of commitment by credit and country risk classes

Country or credit risk classes on the M scale	Credit risk	Volume of commitment at 31.12.2017			
		Country risk		Credit risk	
		EUR k	per cent	EUR k	per cent
M 1 to M 8	Investment grade	3,661,600	51%	261,959	4%
M 9 to M 15	Speculative grade	2,836,576	39%	5,393,977	74%
M 16 to M 18	Intensive support	748,562	10%	997,963	14%
M 19 and M 20	Default	0	0%	592,839	8%
Total		**7,246,738**	**100%**	**7,246,738**	**100%**

Regional distribution of industries by commitment volume

Share of portfolio in % (commitment volume at 31.12.2017)	Africa	Asia	Europe/ Caucasus	Latin and North America	Total	Previous year 31.12.2016
Financial institutions	11.50	15.28	10.75	16.60	**54.13**	51.89
Manufacturing	1.94	6.08	1.88	4.15	**14.06**	15.93
Energy & water supply	3.56	4.06	2.33	5.64	**15.59**	13.91
Transport, telecoms, infrastructure	1.48	1.25	0.46	1.36	**4.54**	4.98
Other services, tourism	1.01	2.06	1.91	2.78	**7.76**	9.33
Agriculture, forestry, fisheries	0.69	0.40	0.68	1.47	**3.23**	3.30
Mining, quarrying, non-metallic minerals	0.59	0.00	0.00	0.10	**0.68**	0.67
Total	**20.76**	**29.12**	**18.02**	**32.10**	**100.00**	
Previous year, 31.12.2016	19.31	28.92	19.90	31.87		100

The economic capital requirement for interest and foreign currency risks at year end is presented below.

a) Interest rate risk

Interest rate risk is defined as the risk of losses due to a change in the interest rate structure unfavourable to DEG. In relation to DEG's financing business, interest rate risk refers to the potential loss that results when a commitment made to a customer on specific terms is not refinanced, or only refinanced at a later date, after a rise in interest rates, or on terms mismatched in some other way (period, method of interest calculation).

By a limited exposure to open interest rate risk positions, DEG generates income from maturity transformations. This strategic interest rate risk position is limited and managed via the available economic capital budget and by means of a prescribed range, based on the Delta Present Value of one Basis Point (DPVBP).

To examine the effects on the current portfolio of extraordinary market fluctuations affecting interest rates, daily scenario calculations are carried out for present values. These factor in an interest rate shift of +/– 200 basis points (supervisory standard shock) across all currencies. The simulations are applied to all the positions in DEG's asset book for which interest rate risks come into play.

b) Foreign currency risk

Foreign currency risk is the danger of losses due to an exchange rate movement that is unfavourable to DEG. In order to fulfil its development mandate, DEG indirectly incurs foreign currency risks as part of its loans and participating interests business.

Where feasible and appropriate, open foreign currency positions from the loans business are closed by means of refinancing or hedging transactions. The exceptions are transactions in non-liquid currencies, where trading in the financial markets is either very limited or not possible at all.

Cash flows from the participating interests business or dividend payments are hedged, provided the likelihood of their occurring can be determined with sufficient certainty. In 2017, DEG also started hedging a portion of its participating interests portfolio against movements in the USD exchange rate. According to German commercial accounting standards, the hedging relationship is represented by a valuation unit as per Article 254 of the German commercial code (HGB). Any remaining foreign currency risks are limited by the stop-loss buffer and the economic capital (ECAP) budget.

Transactions in USD are largely hedged using a macro control system, while other currencies that require hedging are hedged on a case-by-case basis. To achieve this, macro valuation units (USD positions) and micro valuation units in local currencies are formed – currently the Mexican peso, the Russian rouble, the South African rand and the Turkish lira.

Additional information on how the valuation units are accounted for on the balance sheet can be found in the appendix under Accounting/valuation criteria.

To examine the effects on the current portfolio of extraordinary market fluctuations affecting foreign currencies, daily scenario calculations are carried out. For foreign currency risk, the calculations establish the change in present value for an ad-hoc exchange rate movement of 10%.

Liquidity risk

Liquidity risk can be broken down into the following variants: "market liquidity risk", "institutional liquidity risk" and "refinancing risk". Market liquidity risk is the danger of losses (in value) if insufficient liquidity in the market means that DEG, in an effort to procure liquidity, is unable to trade assets at all, in a timely manner, fully or in sufficient number, or at fair market conditions. Since DEG does not trade financing funds or assets in order to procure liquidity, this type of risk is not relevant.

Institutional liquidity risk is the danger that DEG is unable to meet its payment obligations at all, on time or in full. This insolvency risk to DEG is significantly limited by the existing refinancing commitment by KfW, which assures DEG of access to liquidity via KfW. So any insolvency risk to DEG is directly linked to the group's liquidity risk. KfW is supported by a federal guarantee, so despite a comparatively high liquidity requirement (EUR 653.9 million, as per the 2017 risk inventory), an institutional liquidity risk is virtually ruled out. So DEG is only exposed to institutional liquidity risk to a very minor degree and rates the risk as not significant.

Refinancing risk is the danger of losses (in value) if DEG cannot obtain refinancing funds (liabilities side) at all, in full or

Economic capital requirement

EUR million	31.12.2017	31.12.2016
Market price risks	316	290
of which interest rate risks	29	76
of which currency risks	287	214

only at increased market rates. Here, there is a risk that refinancing costs rise at short notice and can only be passed on to customers in part or not at all. The possible effects from a rise in refinancing costs and the resulting dangers to DEG's net worth, financial or earnings situation are comparatively minor (EUR 2.4 million impact on P&L according to the risk inventory). As a result, this risk is also rated as not significant.

Since liquidity risk is, however, a significant risk type in principle according to MaRisk AT 2.2, DEG rates liquidity risk as a significant risk type.

Liquidity risk is countered by secure liquidity provision at an appropriately high level, by careful management and planning of payment flows from the financing business and from refinancing, and by careful liquidity planning. Liquidity risks are limited by an indicator to safeguard minimum liquidity. It remains unchanged compared to the previous year, at 10% of non-disbursed commitments. This safeguards one month's disbursements during normal business operations. The Management Board is immediately informed if DEG falls short of the liquidity limit.

DEG ensures that liquidity costs are taken into account as part of systemic pricing (preliminary costing).

Operational risk

Leaving aside typical banking sector risks, the management of operational risks (OpRisk) is significant. Operational risk is defined as the danger of losses incurred due to the unsuitability or failure of internal processes, personnel or systems, or because of external events. This definition includes consideration of the following risk sub-types: legal risks (incl. compliance risks) behavioural risks, system & ICT risks, model risks and outsourcing risks. Of these sub-types, system & ICT risks and legal risks (incl. compliance risks) were rated as significant in the risk inventory.

System and Information & Communication Technology (ICT) risks describe the danger of losses due to the unsuitability or failure of hardware and software and/or technical infrastructure, which may adversely affect the availability, integrity, confidentiality and security of that infrastructure or of data. This also extends to cyber risks. This risk moved into focus during the 2017 risk evaluation round, especially given current developments. It is being continuously monitored as part of information security management.

Legal risks comprise the risk of losses arising due to a breach of, or failure to comply with, regulations, which subsequently results in legal disputes, or other actions designed to prevent litigation. Legal risks play a key role for DEG, since its business activities extend across many countries with a range of different legal systems. Any risks to DEG's legal positions are countered by involving the legal department early on, and by reviewing the formal and actual legal framework in investment countries.

Behavioural risk describes the danger of losses due to the inappropriate provision of financial services; this includes cases of deliberate or negligent misconduct. Situations under this heading are, e.g. unsatisfactory behaviour on the part of DEG, its staff or its representatives, which may result in customers not receiving fair treatment or fair terms of business, or the integrity of the financial markets or the wider financial system being adversely affected. Strict auditing of commitments, the redesign of the New Products Process, and regular training for DEG staff and representatives in supervisory bodies make a major contribution to monitoring and mitigating this type of risk.

Model risk is the possible loss an institution may suffer due to decisions being taken based mainly on the results of internal models, where the development, implementation or application of such models is faulty. DEG uses its own models as well as models developed and validated centrally by the group (e.g. rating processes). DEG is integrated into the development processes and plays an active part in the validations. The methods and processes DEG uses to determine risk-bearing capacity are regularly validated, and refined as required. Models with no immediate influence on capital requirement are evaluated as part of OpRisk management and the OpRisk evaluation, which has to be carried out annually.

Outsourcing risk is the danger of losses (in value) that may occur because of substandard or inadequate performance by the service provider, as well as due to a default on the provider's part (failure to perform). This is closely monitored by integrating OpRisk management into the materiality evaluation and by subjecting the risk of outsourcing to an ongoing rating process.

One of the main OpRisk instruments is the continuous identification of loss events that have occurred. Provided they are above a minimum level of EUR 1,000, these are recorded in a group-wide OpRisk events database. In addition, annual OpRisk assessments are carried out, based on external and internal loss data and expert appraisals. The purpose is to identify, rate and manage further potential operational risks with a view to reducing them over the long term. DEG's management receives a comprehensive report on OpRisk events, the results of the analysis and any risk mitigation measures derived from them.

In order to comprehensively counter operational risks, DEG has identified process-inherent risks, and defined controls to mitigate these as part of its process-integrated monitoring. Depending on the risk categories assigned to the processes, a review of the correct application of the processes is carried out at least once a year (ICS testing). The results are reported to the management. This is supplemented by the continuous development of DEG's IT landscape and business processes.

DEG's operational processes for IT are defined according to ITIL standards. They are subject to regular in-house checks and reviewed at least once a year by Internal Audit. IT strategy is in line with DEG's corporate strategy and is updated annually in coordination with the Management Board. To ensure the management, control, protection and continuous optimisation of information security, DEG has defined a comprehensive and integrated management system, including rules and processes, based on international ISO/IEC 27001 standards. Should unforeseeable external events occur, Business Continuity Management (BCM) describes a holistic management process that covers all aspects required to maintain critical business processes and reduce losses. BCM includes both preventative and reactive components (contingency planning and emergency and crisis management, respectively). The emergency processes as defined are regularly subjected to a stress test and further refined as part of a regular crisis management team exercise.

Concentration risk

Concentration risk is understood to be the danger of serious (asset) losses or a serious impairment of DEG's liquidity situation, caused by especially large individual risk positions or by increased correlations in DEG's risk positions. A distinction is made between intra-risk and inter-risk concentrations.

The effects of these superordinate risks are included in the measurement of all other risk types. Limits are set for observed risk concentrations in industries or regions.

Regulatory risk

Regulatory risk is the danger of pressures on DEG's earnings, net worth and liquidity situation, and of changes to its business plan and/or business policy direction, due to new requirements arising from regulations or commercial law.

In the course of its integration into the KfW Group, and in close consultation with KfW, DEG has implemented active tracking of changes in its regulatory environment. This ensures the early identification of new requirements and the timely extrapolation of possible measures. Regulatory risk is countered by deploying a conservative traffic-light system valid in all multi-year capital planning scenarios, as a management and early warning tool.

Other risks

In its risk inventory, DEG reviews all risk types within a defined risk universe at least once a year for relevance and significance. In 2016, DEG included the following relevant, but not significant risk types as a group under Other Risks:

- Reputation risk: danger of a longer-term deterioration in the public perception of DEG in the view of relevant internal and external interest groups, with adverse consequences for DEG.
- Risk from strategic participating interests: danger of losses (in value) as a result of providing equity capital to third parties, provided these are strategic participating interests.
- Business risk: danger of losses due to unexpected fluctuations in results because of possible changes in the general business climate. These include, e.g. market environment, customer behaviour and technological progress.
- Strategic risk: danger of losses (in value), or a deterioration in the liquidity situation, caused by in-house decisions relating to DEG's fundamental strategic direction and the development of its business operations; due to inadequate supervision of the way strategies are being implemented.
- Pension risk: danger of the earnings, net worth or liquidity position coming under pressure due to rising pension obligations.
- Real estate risk: danger of losses (in value), if real estate used by DEG or third parties, which is owned by DEG either directly, or indirectly through real estate funds/companies, is affected by rent defaults, partial write-downs or other (disposal) losses.
- Project risk: danger of losses due to events or circumstances which arise specifically from unsubstantiated planning assumptions and subsequently, during the implementation phase, affect the achievement of the project goal in terms of cost, time or quality.
- Leverage risk: danger arising from DEG's exposure due to a debt possibly necessitating unforeseen corrections to the business plan.
- Derivatives risk: danger of losses (in value), or an impairment of DEG's liquidity situation, associated with derivatives transactions (swaps, options, forwards/futures) or with embedded derivatives (borrowers', issuers' or debtors' voting rights).

These risks are managed depending the relevance of each individual risk type for DEG.

In the 2017 risk inventory, which applies in the 2018 financial year, the following changes were made compared to the previous year:

- Risk from strategic participating interests is no longer relevant, since the only existing strategic participating interest has meanwhile been sold.

In the period under review, both regulatory and economic risk-bearing capacity were guaranteed at all times. The company has sufficient reserves at its disposal to take account of any future adverse developments, and any other risks that might become significant. No risks or developments are identifiable which might have a material effect on the future performance of the business.

INTERNAL CONTROL SYSTEM (ICS)

DEG defines its Internal Control System as all the corporate principles, processes and measures, which, given the type, complexity and risk content of its business activities, are designed to ensure:

- the effectiveness and economic efficiency of its business operations,
- the correctness and reliability of its internal and external financial reporting,
- compliance with any statutory regulations that apply to DEG,
- protection of the assets and substance of its financial and net worth positions,
- fulfilment of its public benefit mandate as per its articles of association, and
- fulfilment of the requirements for its exemption as per Article 25a of the German Banking Act (KWG).

The KfW Group's ICS is set up to comply with the requirements of Germany's laws on bank supervision, specifically the German Banking Act (KWG) and the Minimum Requirements for Risk Management (MaRisk), as well as with market standards. In keeping with these requirements, DEG's Internal Control System defines the provisions for rules on structure and process organisation, as well as risk management and risk control processes, including risk reporting and risk controlling. The ICS approach takes in five components: control environment, risk evaluation, control activities, information/communication and monitoring. Taking its cue from KfW's ICS framework, DEG has formulated its own guidelines, which describe the aims, structure and principles of its Internal Control System. It defines the quality standards and the measures employed by DEG to achieve its goals and identify, evaluate and reduce risks. The ICS extends to all business units, including representative offices, and applies to all corporate functions and processes. ICS design and implementation fall within the remit of the Management Board and those senior DEG executives who have strategic and operational responsibility for the process.

The internal monitoring system is based on the written organisational rules (Schriftlich Fixierte Ordnung SFO). It establishes the framework for a proper business organisation. Responsibility for implementing suitable controls rests primarily with the departments responsible for the respective processes. Risks and failure effects are analysed for each process relevant to the risk, and appropriate control measures are specified. This includes assigning responsibility and undertaking verification. Processes and the definitions of controls are regularly updated.

Overall monitoring of the functional capacity of the ICS across the institution is carried out as part of the "second line of defence". Tasks are clearly allocated within the context of risk assessments, which serve to monitor the propriety of business activity, specifically central ICS coordination, MaRisk compliance as per MaRisk AT 4.4.2, money laundering and fraud prevention, compliance with financial sanctions, protection from financing of terrorism, data protection, information security, business continuity management and central coordination for the purpose of monitoring operational risks.

The internal management system also includes all overall bank management regulations introduced to date. To ensure compliance with defined requirements for the management of corporate activities, the implementation of the annual business and risk strategies is regularly monitored, and reports are submitted to the appropriate bodies.

The effectiveness of DEG's Internal Control System is reviewed by the second line function, which instructs outside experts to monitor the proper application and implementation of controls (ICS testing). This review is supplemented by a review, carried out regularly by Internal Audit, of whether the ICS has been suitably designed. The results of these reviews are reported to the Supervisory Board once a year. This report rounds off existing risk reporting. During the function and effectiveness review for 2017, 161 key controls for risk classes II to IV (processes carrying medium risk and high risk, respectively) were subject to testing. Based on this review, which was supplemented by the results of rule verification to confirm the suitability of its design, DEG's ICS was judged to be fundamentally effective.

OUTLOOK

World trade and world economic growth have displayed a distinct upturn since the end of 2016. More and more economies are being drawn in. As a result, world economic growth in 2018 is expected to increase by 3.9% (2017: 3.7%). The main contribution is likely to come from the industrialised nations, where economies are expected to grow by around 2.3%, as in 2017. Economic growth of 4.9% (2017: 4.7%) is forecast for developing and emerging market countries, though development within this group of countries remains very heterogeneous.

The business climate in developing and emerging market countries is expected to remain favourable in 2018. The industrialised nations are also likely to grow their economies further over the next year or two, driven by the rise in private consumption and corporate investments. It is also reasonable to assume that most central banks in developing and emerging market countries will ease rather than tighten monetary policy. Prices of raw materials are expected to remain stable, as is world trade.

China is an important driving force for the world economy as a whole and specifically for developing and emerging market countries that export raw materials. In 2018, Chinese growth is expected to slow from 6% in 2017 to 5%. This would not put the recovery in developing and emerging market countries at risk.

In Asia as a whole (without Japan), most countries benefit from the upturn in global development, on the one hand, and a healthy domestic economy, on the other. In India, economic development had slowed in the first half of 2017, but is likely to pick up again in 2018 (forecast: 6.5%; 2017: 6.0%). Overall, the region is expected to continue to grow by 6.5% in 2018.

Compared to Asia, the outlook for Latin America is less positive, with forecast growth of 1.9%. However, this is better than the previous year's development. For example, despite the political crisis, the Brazilian economy is expected to increase its rate of growth from 1% in 2017 to 2.8%. The outlook for Mexico has also improved, while the recovery of Argentina's economy is expected to continue over the coming quarters.

Growth of 4.0% is forecast in 2018 for European countries outside the EU (2017: 5.2%). Turkey's economy is expected to slow down in 2018 to 2.5% (2017: 5.5%). The Commonwealth of Independent States is likely to record a similar level of growth (2.2%) in 2018 as in 2017. In Russia, the recovery is still at an early stage and may continue for some time, partly due to the weak rouble. As a result, GDP growth of 2.5% is forecast for 2018.

The outlook for Sub-Saharan Africa has improved, with growth of 3.3% expected in 2018 (2017: 2.7%). However, the situation of individual countries in Sub-Saharan Africa varies considerably. For instance, given the continuing weakness of the oil price, the oil-exporting countries are likely to experience below-average growth. By contrast, the group of West and Central African countries should experience a much more favourable development. Nigeria is expected to achieve moderate growth of 3% (2017: 1.2%), while South Africa is likely to manage just 2% (2017: 1.5%), due to continuing political uncertainly and a persistent lack of investor confidence. The forecast for Sub-Saharan Africa includes substantial downside risks, specifically political and security risks.

In the Middle East and North Africa region, 2018 should see the beginnings of a recovery. The forecast is for growth to rise to 3.6%, following 2.5% in 2017. However, there are several factors curbing the recovery. The oil-exporting countries will need to cut their costs further in order to reduce their budget and current account deficits. The war in Syria is also having an effect on the situation in neighbouring countries. In Algeria and Tunisia, the failure to implement reforms means that growth remains weak. On the other hand, a rise in growth is expected for Morocco and Egypt.

Overall, the relationship between opportunities and risks appears more balanced at the end of 2017 than it did a year earlier. Possible risks to the world economy in 2018 are rising geopolitical tensions, protectionism and a possible slump in China. A drastic tightening of global financing terms could have negative consequences for susceptible economies. The tax reforms in the United States may result in capital being moved from developing and emerging market countries into USD investments and lead to a revaluation of the USD.

Finally, the loose monetary policy of the past decade has increased the susceptibility of the global financial system to market and liquidity risks. Continuing to pursue this policy would only increase these risks. If normalisation is not carefully managed, significant disruptions may occur if there is a rapid increase in risks premiums and volatility.

Corporate outlook

In 2018, DEG expects to continue to operate in a challenging environment shaped by high levels of liquidity in its target markets, by geopolitical risks and regulatory requirements. At the same time, opportunities will emerge during the anticipated global economic upturn, especially in its target region of Africa, which is also the focus of such political initiatives as “Compact with Africa”.

DEG's strategic planning is based on a target portfolio, from which guidelines for each year's new business are derived. For 2018, DEG is aiming to achieve EUR 1.7 billion in new commitments. In addition, DEG is planning to use its financing to mobilise additional funds of EUR 350 million from other finance providers and institutional investors.

The applications for financing received by the end of 2017 reached EUR 1.5 billion in total, suggesting that demand from businesses for DEG's services will continue in 2018.

The volume of commitment is a key performance indicator for DEG's business activities. Planning for 2018 assumes that the volume will grow by around 9%.

It should also prove possible in 2018 to maintain the good developmental quality of the proposals co-financed by DEG.

DEG expects the earnings trend to be favourable in 2018. Key sources of revenue will again be specifically income from participating interests – especially from disposals – and the interest surplus from the loans business. Staff and non-staff costs will display a moderate rise. This is due, among other things, to transfers to pension provisions.

Under current plans, and based on standard risk costs, net risk provision in the 2018 financial year will remain virtually unchanged at EUR 160 million. The profit for the financial year after tax is expected to be approximately EUR 89 million, slightly lower than in the 2017 financial year.

DEG's financial success is largely determined by the risk provision it is required to make, and by the volatile income from participating interests, which is dependent on external market conditions. For 2018, DEG expects a pre-tax return on equity of 3.7%, resulting in a three-year average of 4.2%.

Thanks and appreciation

The Management Board would like to thank all members of staff who, with their wide-ranging expertise and great dedication, successfully helped to ensure that DEG was able to fulfil its development mandate and achieve its business policy goals in 2017. Thanks are also due to the employees' representative bodies – the Staff Council and the Economic Committee – as well as to the Senior Staff Council for their cooperation, which has again proved loyal and most constructive.

Cologne, 7 February 2018
The Management Board

Annual Financial Statements 2017

BALANCE SHEET

PROFIT AND LOSS ACCOUNT

APPENDIX

BALANCE SHEET AT 31.12.2017

(with previous year's figures for comparison)

ASSETS			31.12.2017	31.12.2016
A. Fixed assets	**EUR**	**EUR**	**EUR**	**EUR k**
I. Intangible assets				
1. Purchased industrial property rights and similar rights and assets, including licences in such rights and assets			1,002,289	1,014
2. Payments in advance			6,216,646	4,606
			7,218,935	5,620
II. Tangible assets				
1. Land and buildings		72,058,703		44,481
2. Office equipment		4,928,387		3,303
3. Payments in advance		201,460		15,636
			77,188,550	63,420
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	1,345,331,809			1,296,387
b) Lendings to enterprises in which DEG has a participating interest	60,950,213			116,653
c) Other lendings	3,421,791,112			3,882,740
		4,828,073,134		5,295,780
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	22,203,725			76,003
b) Other lendings	4,034,625			3,504
		26,238,350		79,507
			4,854,311,484	5,375,287
Total A (I + II + III)			4,938,718,969	5,444,327
B. Current assets				
I. Debtors and other assets				
1. Amounts owed from investment activities		69,460,949		71,896
of which amounts owed by enterprises in which DEG has a participating interest		2,816,704		9,509
2. Amounts owed from disposal of investments		18,627,101		8,615
3. Amounts owed from consultancy and other services		85,780		374
4. Other assets		74,612,833		59,016
			162,786,663	139,901
II. Bonds and notes			1,744,892	3,156
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			198,158,157	185,916
Total B (I + II + III)			362,689,712	328,973
C. Accruals and deferrals			1,231,224	1,089
D. Assets held under trust			25,820,179	45,706
Total assets			**5,328,460,084**	**5,820,095**

LIABILITIES			31.12.2017	31.12.2016
A. Shareholder's equity	**EUR**	**EUR**	**EUR**	**EUR k**
I. Subscribed capital				
1. Subscribed capital			750,000,000	750,000
II. Appropriated surplus				
1. Purpose-tied reserve fund				
as at 1 January	0			3,471
Transfer from net income for previous year	0			–3,471
as at 31 December		0		0
2. Other appropriated surplus				
as at 1 January	1,181,295,297			1,431,665
Transfer from net income for previous year	436,650,805			86,495
as at 31 December		1,617,946,102	1,617,946,102	1,518,160
III. Net profit			93,792,192	99,786
Total A (I + II + III)			2,461,738,294	2,367,946
B. Provisions for liabilities and charges				
1. Provisions for pensions and similar obligations		106,714,834		98,246
2. Provisions for taxes		473,649		478
3. Other provisions		51,062,554		39,854
Total B (1 + 2 + 3)			158,251,037	138,578
C. Creditors				
1. Amounts owed for financing investment activities		2,610,071,848		3,089,727
2. Trade creditors		751,816		2,787
3. Other creditors		71,826,910		175,351
of which tax payable of which social security		915,500 –53,732		1,095 40
Total C (1 + 2 + 3)			2,682,650,574	3,267,865
D. Liabilities for assets held under trust			25,820,179	45,706
Total liabilities			**5,328,460,084**	**5,820,095**

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 01.01 TO 31.12.2017

(with previous year's figures for comparison)

INCOME	01.01–31.12.**2017**		01.01–31.12.**2016**
1. Sales revenue		EUR	EUR k
a) from consultancy services	5,308,372		4,436
b) from trust transactions	289,585		659
c) from other services	10,940,377		10,795
		16,538,334	15,890
of which from affiliated enterprises		51,560	47
2. Income from participating interests		32,710,457	35,191
3. Income from long-term lendings		234,751,971	255,569
of which from affiliated enterprises		–10,389,059	–10,300
of which from negative interest rates		39,765	85
4. Other interest receivable and similar income		848,862	8,444
of which from affiliated enterprises		–96,226	6,516
5. Income from write-ups and write-back of provisions in respect of lending business and participating interests			
a) Write-up of financial fixed assets	89,638,482		141,443
b) Write-up of amounts owed from investment business and from disposal of investments	0		2,870
c) Write-back of provisions in respect of lendings business and participating interests	25,000		450
		89,663,482	144,763
6. Other operating income		191,129,727	147,263
Total income		**565,642,833**	**607,120**

CHARGES		
7. Cost of services purchased	2,453,864	1,669
8. Depreciation, value adjustments and transfer to provisions in respect of the lendings business and participating interests		
a) Depreciation and value adjustments in respect of financial fixed assets	157,226,388	269,762
b) Depreciation and value adjustments in respect of amounts owed from investment business and disposal of investments	46,981,856	11,818
c) Transfers to provisions in respect of lendings business and participating interests	11,044,831	0
d) Depreciation and value adjustments in respect of bonds and notes under current fixed assets	854,233	0
	216,107,308	281,580
9. Interest payable and similar charges	49,866,760	43,260
of which to affiliated enterprises	40,825,263	37,984
of which from negative interest rates	244,705	75
10. Staff costs		
a) Wages and salaries	51,337,424	49,850
b) Social security, pensions and other benefits	17,032,627	6,795
of which pensions	9,953,529	244
11. Depreciation and adjustments for impairment of intangible and tangible assets	2,908,835	3,298
12. Other operating charges	122,370,388	109,360
Total (7 + 8 + 9 + 10 + 11 + 12)	462,077,206	495,812
13. Tax on income and profit	9,742,756	14,865
14. Net earnings	93,822,871	96,443
15. Other taxes	30,679	128
16. Profit for the financial year	93,792,192	96,315
17. Withdrawal from purpose-tied reserve fund	0	3,471
18. Net profit	**93,792,192**	**99,786**

APPENDIX FOR THE 2017 FINANCIAL YEAR

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
Kämmergasse 22, 50676 Cologne
Registered office: Cologne, Commercial Register No.: HRB 1005 at Cologne Amtsgericht

General Notes on the annual financial statements

Form of annual financial statements

The balance sheet and the profit and loss account were laid out in compliance with the provisions for large corporations in Articles 266 & 275 of the German Commercial Code (HGB).

Due to business conducted, the items on the balance sheet and the profit and loss account have been supplemented or re-designated in accordance with Article 265 HGB.

Under Article 340 HGB and Article 1 of the Accounting Requirements for Financial Institutions and Financial Service Providers, DEG is exempt from the provisions relating to financial statement forms for credit institutions.

In the 2017 financial year, income and charges from currency conversion have for the first time been itemised in full as Other operating income and Other operating charges, respectively, as per Article 277, Section 5, Clause 2 HGB. There is an exception for the result from foreign currency in the participating interests portfolio, which is not offset as an element of a valuation unit. In the current financial year, this income and these charges are still itemised as Income from write-ups and write-back of provisions in respect of lendings business and participating interests, and, respectively, Depreciation, value adjustments and transfers to provision in respect of the lendings business and participating interests.

Accounting/valuation criteria

Purchased intangible and tangible assets are activated at original costs and subject to straight-line depreciation across their average useful life.

The choice to activate internally produced intangible assets under current fixed assets as per the provisions of Article 248, Section 2 HGB was not exercised.

The choice under Article 67, Section 4, Clause 1 of the Introductory Act to the Commercial Code (EGHGB), according to which lower valuations of assets, based on depreciation under Article 254 HGB (version in force until 28 May 2009), may be retained, is exercised for the building in respect of the one-off tax depreciation from the transfer of silent reserves as per Article 6b of German Income Tax Law (EstG).

Low value assets are dealt with in accordance with Article 6, Section 2 EstG, i.e. where the value is less than EUR 410, they are immediately recorded under Other operating charges.

Financial fixed assets are recognised at original cost or at fair value if lower, regardless of whether the impairment is likely to be permanent.

To take account of counterparty default risk, DEG makes provision for risk for both identifiable and latent default risks in its financing portfolio. The loan loss provisions are deducted in the respective asset items.

The value of a participating interest is generally determined using the Discounted Cash Flow (DCF) method or the Net Asset Value method (funds). When establishing the value of a participating interest, embedded put and call options are taken into account, where the value is determined using a suitable option price model. Incidental acquisition costs are activated as of the decision to purchase.

Where market prices are available, e.g. stock market quotations, DEG will verify whether, after a critical review of the assumptions underlying the valuation and pricing, the stock market price represents an appropriate valuation and should replace the DCF method. If a firm offer to purchase the participating interest has been received, the proposed purchase price replaces the DCF method as the basis for the value of the participating interest. If the participating interest was acquired less than a year earlier, DEG will generally fall back on the purchase price. However, if, after acquiring the participating interest, DEG becomes aware of important factors affecting the value which did not enter into the determination of the purchase price, the DCF method is used to determine the value of the participating interest even during the first year, taking the new finding into account. Country risks are taken into account for participating interests by an upward adjustment of the discount factors when the DCF method is applied. If the value of the participating interest, calculated as described above, is lower than the purchase price or the lower book value, a corresponding loan loss provision is made.

For lendings, bonds and notes under current fixed assets, the counterparty default risk of a commitment is initially identified by using trigger events to assess whether provision for risk is required on those grounds. If such a trigger event takes place, the level of provision for risk is estimated based on the present value of expected future repayments on the loan in question.

For latent default risks, DEG also makes a portfolio value adjustment for lendings, bonds and notes under current fixed assets where no specific loan loss provision has been made. Depending on the rating, the portfolio value adjustment is calculated based on the standard risk cost approach and takes into account both counterparty default risks and country risks.

Using the method outlined above, DEG also makes provision for latent default risks in respect of the guarantees it issues in the course of its financing business and for commitments in respect of lendings not yet disbursed on the balance sheet date.

The current financial year marks the first time blanket loan loss provision was made for commitments in respect of lendings not yet disbursed on the balance sheet date. This is because of a change in the way the commitments are assessed, according to which they are irrevocable in nature.

Amounts owed and other assets are recognised at their par value. Actual default risks are catered for by loan loss provisions.

Under Article 246, Section 2, Clause 2 HGB, assets that are exempt from all creditor access and serve only to settle debts from pension obligations under the deferred compensation scheme were offset against those debts in the sum of EUR 1.5 million as at the balance sheet date. The original costs, and the fair value of the assets respectively, amounted to EUR 1.5 million as at 31 December 2017.

Other bonds and notes under current assets are recognised at original cost, applying the strict lowest-value principle and observing the value appreciation requirement.

Accruals and deferrals on the assets side are recorded as per Article 250, Section 1 HGB and comprise expenditure prior to 31 December 2017, where this represents costs relating to a specific period after that date.

Provisions for pensions and similar obligations are calculated at their going-concern value using the Mortality Tables 2005 G (Richttafeln 2005 G) published by Dr Klaus Heubeck.

Other provisions were made at the level of the anticipated settlement value and take all actual risks and contingent liabilities into account. Any provisions with a residual term of more than one year were discounted in accordance with their residual terms at the average market rate across the past seven years as published by Deutsche Bundesbank.

Amounts owed are recorded as liabilities with repayment amounts.

Deferred tax liabilities are offset against deferred tax assets. The choice not to activate deferred tax liabilities that exceed deferred tax assets is exercised under the provisions of Article 274, Section 1, Clause 2 HGB.

At the time of acquisition, all assets and debts currently or originally denominated in foreign currency are converted into EUR at the rate of exchange current at the time of purchase.

In accordance with DEG's risk strategy, an overall approach is taken to the USD currency risk from lendings, bonds and notes under current fixed assets, overnight and time deposits, and the reverse changes in value from refinancing. The resulting net positions are hedged with cross-currency interest rate swaps and forward exchange transactions. In the current financial year, following an amendment to the risk strategy, the USD currency risk from the participating interests portfolio has been hedged for the first time. Forward exchange transactions in the amount of USD 180 million were closed for the purpose. This equates to an approximately 20% hedge on the USD participating interests portfolio. On the balance sheet, it is accounted for via a macro valuation unit in accordance with Article 254 HGB.

The prospective effectiveness of the macro valuation unit essentially results from matching currency hedging. DEG uses the dollar offset method to show the retrospective effectiveness.

Other foreign currency risks, from local currencies used for lendings, were hedged with cross-currency swaps. These are accounted for, along with the basic transactions, in micro valuation units.

For the micro valuation units, both prospective and retrospective effectiveness is assured as a result of incoming and outgoing cash flows being identical for basic and hedging transactions.

Changes in value that balance out in respect of effectiveness are recorded in terms of gains or losses (gross hedge presentation method). Where no effective hedge is present, basic and hedging transactions are valued according to the imparity principle. The same applies to derivatives transactions that are neither included in a valuation unit, nor serve to control interest rate risks.

Provision for contingent losses of EUR 16.8 million in total was made for the ineffective portion of the macro valuation unit for the lendings business.

A statement by the German Institute of Certified Public Auditors (IDW) on financial reporting, specifically "Individual issues relating to the loss-free valuation of interest-related transactions in the banking book (interest book)" („Einzelfragen der verlustfreien Bewertung von zinsbezogenen Geschäften des Bankbuchs (Zinsbuchs)") (IDW RS BFA 3) proposes that where excess liability results from transactions involving interest-based financial instruments of the banking book, provision for contingent losses must be made. To calculate this possible excess liability, DEG compares the present values as per the banking book with the book values as per the banking book as at the effective date in question, taking into account future risk and administration costs. A calculation along these lines at the effective date of 31 December 2017 showed no excess liability, so no provision for contingent losses needed to be made.

NOTES ON ASSETS

Fixed assets

Please see the table "Movements in fixed asset balances" for details.

Movements in fixed asset balances

	Original costs				
	01.01.2017	Accruals	Book transfers	Disposals	31.12.2017
	EUR	EUR	EUR	EUR	EUR
I. Intangible assets					
1. Purchased industrial property rights and similar rights and assets, including licences in such rights and assets	7,118,992	368,418	0	1,550,953	5,936,457
2. Payments in advance	4,606,237	1,610,409	0	0	6,216,646
	11,725,229	1,978,827	0	1,550,953	12,153,103
II. Tangible assets					
1. Land and buildings	55,623,617	1,212	28,911,531	0	84,536,360
2. Office equipment	9,060,076	3,132,539	0	430,906	11,761,709
3. Payments in advance and assets under construction	15,830,417	13,282,574	–28,911,531	0	201,460
	80,514,110	16,416,325	0	430,906	96,499,529
Total (I + II)	92,239,339	18,395,152	0	1,981,859	108,652,632
III. Financial fixed assets					
1. Investments in partner countries					
a) Participating interests	1,581,741,212	276,299,538	0	192,254,233	1,665,786,517
b) Lendings to enterprises in which DEG has a participating interest	151,231,084	11,791,038	–4,428,250	79,418,866	79,175,006
c) Other lendings	4,251,907,930	1,156,063,837	4,428,250	1,683,750,009	3,728,650,008
Total 1 (a + b + c)	5,984,880,226	1,444,154,413	0	1,955,423,108	5,473,611,531
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	77,082,778	23,547,282	0	77,997,566	22,632,494
b) Other lendings	3,503,568	1,030,816	0	499,759	4,034,625
	80,586,346	24,578,098	0	78,497,325	26,667,119
Total III	6,065,466,572	1,468,732,511	0	2,033,920,433	5,500,278,650
Total (I + II + III)	**6,157,705,911**	**1,487,127,663**	**0**	**2,035,902,292**	**5,608,931,282**

[1] For fixed assets, this is equivalent to the utilisation of the risk provision.
[2] Of which EUR 63,185,208 hedged with third-party counter-guarantees (unfunded risk participation).
[3] Without accrued pro-rata interest.

							Depreciation	Book value
	01.01.2017	Accruals	Book transfers	Currency	Consumption[1]	Disposals	31.12.2017	31.12.2017
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	6,105,456	373,717	0	0	1,545,005	0	4,934,168	1,002,289
	0	0	0	0	0	0	0	6,216,646
	6,105,456	373,717	0	0	1,545,005	0	4,934,168	7,218,935
	11,142,369	1,140,766	–194,523	0	0	0	12,477,658	72,058,702
	5,757,102	1,394,351	0	0	318,131	0	6,833,322	4,928,387
	194,523	0	194,523	0	0	0	0	201,460
	17,093,994	2,535,117	0	0	318,131	0	19,310,980	77,188,549
	23,199,450	2,908,834	0	0	1,863,136	0	24,245,148	84,407,484
	285,354,120	108,500,061	0	0	51,433,557	21,965,916	320,454,708	1,345,331,809
	34,578,159	3,631,830	–743,383	–1,059,055	12,800,037	5,382,721	18,224,793	60,950,213
	369,167,720	84,833,756	743,383	–10,021,103	57,230,568	80,634,292	306,858,896	3,421,791,112
	689,099,999	196,965,647	0	–11,080,158	121,464,162	107,982,929	645,538,397	4,828,073,134[2]
	2,996,904	996,885	0	–108,225	1,899,642	957,726	1,028,196	21,604,298[3]
	0	0	0	0	0	0	0	4,034,625
	2,996,904	996,885	0	–108,225	1,899,642	957,726	1,028,196	25,638,923
	692,096,903	197,962,532	0	–11,188,383	123,363,804	108,940,655	646,566,593	4,853,712,057
	715,296,353	**200,871,366**	**0**	**–11,188,383**	**125,226,940**	**108,940,655**	**670,811,741**	**4,938,119,541**

Intangible assets

"Intangible assets" includes purchased licences in the amount of EUR 1.0 million, as well as payments in advance of EUR 6.2 million for one purchased licence, which still needs to be rendered operational.

Tangible assets

"Tangible assets" shows land and buildings in the amount of EUR 72.1 million. The additional office building was completed in 2017. This item also includes office equipment in the amount of EUR 4.9 million, as well as payments in advance and assets under construction of EUR 0.2 million.

Investments in partner countries

This item shows investments from funds on own account of EUR 4,828.1 million, which are made up of participating interests and lendings.

Investments from funds on own account were made in 544 enterprises in 83 countries. These included four enterprises where the investments were part-financed from German federal trust funds and by other trustee lenders. In nine enterprises, third parties entered into risk sub-participations in the form of counter-guarantees.

Financial fixed assets with a residual term of up to one year

	EUR million
1. Investments in partner countries	
a) Participating interests	-
b) Lendings to enterprises in which DEG has a participating interest	7.1
c) Other lendings	593.4
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	2.5
b) Other lendings	0.0
Total	**603.0**

Other financial fixed assets

The item "Bonds and notes" in current fixed assets (EUR 22.2 million) shows financing committed by DEG that has been securitised. It comprises three bonds. Accrued interest at the balance sheet date was EUR 0.6 million. The portfolio value adjustment was EUR 1.0 million.

The item also includes Other lendings comprising EUR 4.0 million in loans to staff members.

Amounts owed from investment activities

Amounts owed of EUR 59.2 million comprises mainly dividends and interest due (including accrued interest and commitment fees pro rata, as well as other amounts owed, but not yet due), as well as various reimbursement claims. This item also includes accrued interest from swap agreements (EUR 10.2 million).

Amounts owed from disposal of investments

This item shows the purchase money proceeds from the sale or transfer of participating interests and lendings, as well as amounts owed with respect to these (e.g. interest payable on purchase money proceeds).

Amounts owed from consultancy and other services

These are reimbursements from trust funds charged to the Federal Ministry for Economic Cooperation and Development (BMZ) and to the Federal Ministry for the Environment, Nature Conservation, Building and Reactor Safety (BMUB).

Other assets

“Other assets” largely consists of balancing items for accountancy purposes for foreign currency transactions in respect of the foreign currency valuation units in MXN, ZAR, RUB and TRY (EUR 22.4 million), amounts owed by the tax office (EUR 23.4 million), one receivable from the sale of a participating interest (EUR 14.8 million) and amounts owed by consortium partners (EUR 11.3 million).

Residual maturity profile of receivables and other assets

in million EUR					Residual maturity
	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
Amounts owed from					
1. investment activities	69.4	-	-	-	69.4*
2. disposal of investments	18.7	-	-	-	18.7
3. consultancy and other services	0.1	-	-	-	0.1
Other assets	74.6	-	-	-	74.6
Total	**162.8**	**0.0**	**0.0**	**0.0**	**162.8**

* Of which EUR 10.2 million (2016: EUR 11.4 million) owed by the Shareholder.

Other bonds and notes

This item contains a purchased security in the amount of EUR 1.7 million, used to hedge semi-retirement programmes for older staff members.

Cash in hand, balances with Deutsche Bundesbank and with credit institutions

Balances with credit institutions covers investments in the money market of EUR 175.3 million invested with the Shareholder KfW, as well as current account balances of EUR 22.7 million. These comprise corporate funds temporarily awaiting investment in enterprises in partner countries.

Accruals and deferrals

Among other things, this item comprises expenditure on licences, and maintenance costs for hardware and software, representing charges for financial years after 31 December 2017.

Assets held under trust

This item comprises investments in partner countries from trust funds in the form of participating interests of EUR 2.2 million and lendings of EUR 18.6 million.

Amounts owed on a trust basis of EUR 5.0 million are also shown here.

EUR 18.5 million of lendings is accounted for by the “Federal Republic of Germany’s Lending Programme for Business Start-ups to Promote Start-ups of Small and Medium-sized Enterprises by Natural Persons in Developing Countries”, based on special joint lending funds with partner countries or institutions.

Deferred tax assets

There are taxable temporary differences arising specifically from the transfer of hidden reserves as per Article 6b EstG and from provision for risk, which have resulted in deferred tax liabilities of EUR 0.1 million. These are offset by deductible temporary differences, specifically from provisions for risk and other provisions, which have led to “Deferred tax assets” in the amount of EUR 19.8 million. The choice to refrain from taking the deferred tax asset surplus into consideration was exercised. The deferred tax liabilities were calculated based on an overall tax rate of 32.45%.

NOTES ON LIABILITIES

Subscribed capital

Subscribed capital amounts to EUR 750.0 million.

As a subsidiary of Kreditanstalt für Wiederaufbau (KfW), based in Frankfurt am Main, DEG is included in the group accounts. KfW prepares consolidated accounts, which are published in Germany in the Federal Gazette (electronic version).

As a general rule under DEG's articles of association, profits are not distributed, so the limitation of profits distribution provided for by HGB Article 253, Section 6, and Article 268, Section 8 does not apply.

A proposal to allocate the profit for the financial year of EUR 93.8 million to the item "Other retained earnings" has been submitted to the Shareholders' Meeting.

Provisions for pensions and similar obligations

From 2016, an average market interest rate over ten years must be applied when discounting pension obligations. This is due to a change in the law. The rate as at 31 December 2017 was 3.68%. The difference compared to the previous seven-year average market interest rate as at 31 December 2017 (2.80%) is EUR 15.6 million. When calculating the required provisions, an annual salary increase of 2.2% and a pension rise of 2% or 1%, respectively, were assumed, depending on remuneration or pension scheme.

In connection with DEG's change of actuary, the approach to evaluating the pensions obligations has been reviewed. This has resulted in changing the evaluation approach to the evaluation of a defined contribution scheme. Under this approach, provision at the balance sheet date is defined as the present value of the level of entitlement that has been reached (in other words, the accrued component sum). This reflects the actual obligation much more accurately than the entitlement earned pro rata of a projected achievable benefit, as used in the past.

The salary trend of 2.8%, applied in the previous year, is no longer in line with the prospective development of salaries at DEG. As a result, the salary trend was reduced from 2.8% to 2.2%. Based on the current situation, an increase of the fluctuation rate from 0.0% to 1.5% was also required for the 2006 pension scheme.

In accordance with Article 253, Section 2, Clause 2 HGB, provisions for other long-term obligations were discounted across the board at the average market interest rate resulting from an assumed residual maturity of 15 years.

Provision for taxes

The item Provision for taxes relates to withholding taxes of EUR 0.5 million from the sale of two participating interests which will be accounted for in 2018.

Other provisions

In the 2017 financial year, provisions for contingent losses of EUR 17.2 million were made for the ineffective portion of the foreign currency valuation unit in EUR 16.8 million.

For obligations in respect of lendings not yet disbursed, a blanket value adjustment in the amount of EUR 10.9 million was made in the form of other provisions.

The item also includes provisions for variable remuneration (EUR 6.5 million), for part-time work programmes for employees approaching retirement age (EUR 2.5 million), and for leave and compensation for overtime (EUR 1.5 million). Provisions for legal risks amount to EUR 1.6 million.

Amounts owed for financing investment activities

Amounts owed here refers specifically to loans against borrowers' notes in the amount of EUR 2,080.0 million placed with the Shareholder KfW (2016: EUR 2,700.8 million).

Other amounts owed

Other amounts owed includes EUR 47.1 million in balancing items for accountancy purposes relating to foreign currency transactions in respect of the macro valuation unit in USD, and EUR 13.7 million owed in respect of consortium partners and borrowers.

Liabilities for assets held under trust

The following were made available to DEG on a trust basis for the purpose of financing investments in partner countries and for business start-up loans: EUR 24.7 million from BMZ, and EUR 1.1 million from the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).

Residual maturity profile of amounts owed

EUR million	Residual maturity				
	up to 3 months	more than 3 months	more than 1 year	more than 5 years	Total
1. Amounts owed for financing investment activities	692.3	439.5	1,407.4	70.9	2,610.1*
2. Amounts owed to trade creditors	0.7	-	-	-	0.7
3. Other amounts owed	70.7	-	1.2	-	71.9
Total	**763.7**	**439.5**	**1,408.6**	**70.9**	**2,682.7**

* Of which EUR 2,610.0 million (2016: EUR 3,089.4) to the Shareholder.

Deferred tax liabilities

Since deferred tax liabilities were balanced out against deferred tax assets, they are not shown.

NOTES ON INCOME

Sales revenue

Sales revenue comprises earnings from the provision of services in connection with the financing business.

By region, sales revenue breaks down as follows:

EUR million	2017	2016
Africa	5.0	5.6
America	3.9	3.7
Asia	5.1	4.0
Europe	2.0	1.5
Worldwide	0.6	1.1
Total	**16.6**	**15.9**

Income from participating interests and income from long-term lendings

Income from participating interests and from lendings in partner countries is largely made up of dividends, interest on lendings, bonds and related hedging transactions, and commitment fees and commissions on loans. The breakdown by region (excluding the results from hedging transactions of EUR –18.9 million) is as follows:

EUR million	2017	2016
Africa	65.9	79.9
America	95.1	90.4
Asia	99.0	102.8
Europe	19.9	29.3
Worldwide	6.5	0.0
Total	**286.4**	**302.4**

Other interest receivable and similar income

This item includes specifically earnings of EUR 0.6 million from late subscriber interest with funds.

Other operating income

This item includes specifically income from the disposal of participating interests of EUR 113.8 million. Additionally, a total of EUR 5.3 million of other operating income is from the write-back of provision for contingent losses for the macro valuation unit (USD).

In addition, it includes gains realised from exchange rate movements of EUR 29.2 million and EUR 39.0 million in income from currency translation as per Article 256a HGB.

NOTES ON CHARGES

Cost of services purchased

At EUR 2.5 million, the cost of services purchased is at a level similar to the previous year's (2016: EUR 1.7 million).

Interest payable and similar charges

These charges were incurred largely on loans against borrowers' notes (EUR 30.9 million); they also include the net result from derivatives hedging (EUR 13.6 million). For the 2017 financial year, the item also includes interest charges from the compounding of interest on pension and other long-term staff-related provisions in the sum of EUR 3.9 million (2016: EUR 3.9 million).

Staff costs

The charges for pensions and other benefits of EUR 10.0 million include transfers to provision for pensions of EUR 8.7 million. This item also comprises contributions to the Pension Association of Publicly Sponsored Companies (Versorgungsverband bundes- und landesgeförderter Unternehmen e.V. VBLU) (EUR 1.2 million).

Depreciation and adjustments for impairment of intangible and tangible assets

In 2017, depreciation for impairment of tangible assets came to EUR 2.9 million in total (2016: EUR 3.3). This includes depreciation on office equipment of EUR 1.4 million, on buildings of EUR 1.1 million, and depreciation on hardware and software of EUR 0.4 million.

Depreciation on DEG's building in Kämmergasse for the 2009 financial year included one-off tax depreciation under HGB Article 254 (old version) of EUR 1.0 million from the transfer of silent reserves from the proceeds of the sale of the land and buildings in Belvederestraße as per EstG Article 6b. As a consequence, the 2017 annual result increased by the sum of EUR 20,000.

Other operating charges

This item comprises specifically administrative costs of EUR 57.3 million, including in particular costs of EUR 32.4 million for experts and consultants, and travel costs of EUR 4.4 million.

This item further records realised charges in respect of exchange rate movements of EUR 39.7 million, and EUR 20.5 million from foreign currency valuation as per HGB Article 256a.

Income and charges relating to other periods

Other income includes EUR 1.6 million in income relating to other periods from the write-back of other provisions.

There were no charges relating to other periods in the 2017 financial year.

Statement of auditing fees as provided by Article 285, Clause 1, No. 17

In the 2017 financial year, the following auditing fees were taken into consideration:

2017	EUR
Auditing fee	581,211
Other certification services	91,760
Tax consultancy services	0
Total	**672,971**

Write-backs of provisions from 2016 of EUR 21,787 are offset in the statement of auditing fees.

The statement of fees for other certification services includes costs of EUR 41,760 for 2017 which were not covered by provisions made in 2016.

Taxes on income and profit

Tax charges of EUR 9.7 million in total comprise tax on profits for the 2017 financial year of EUR 8.7 million and foreign tax charges of EUR 2.0 million. These are offset by tax refunds for the 2016 financial year of EUR 1.0 million.

PROFIT FOR THE FINANCIAL YEAR/NET INCOME

The net profit recognised amounts to EUR 93.8 million. As stipulated in the articles of partnership, it may not be distributed.

Follow-up report

No events of vital importance to the net worth, financial or earnings situation occurred after the end of the financial year.

Derivatives transactions

Volumes

EUR million	Nominal values*		Positive market values	Negative market values
	31.12.2016	**31.12.2017**	**31.12.2017**	**31.12.2017**
Contracts with interest rate risks				
Interest rate swaps	441.4	784.2	11.9	–0.7
Total interest rate risks	441.4	784.2	11.9	–0.7
Contracts with currency risks				
Forward foreign exchange transactions, swaps	115.7	318.1	3.6	–0.2
Non-deliverable forwards	1.4	14.1	0.0	–0.2
Currency and cross-currency interest rate swaps	1,169.8	780.5	28.7	–67.7
Total currency risks	**1,286.9**	**1,112.8**	**32.3**	**–68.1**
Total	**1,728.3**	**1,896.9**	**44.2**	**–68.7**

Counterparties

EUR million	Nominal values*		Positive market values	Negative market values
	31.12.2016	**31.12.2017**	**31.12.2017**	**31.12.2017**
OECD banks	1,728.3	1,896.9	44.2	–68.7
Total	**1,728.3**	**1,896.9**	**44.2**	**–68.7**

Maturities

Nominal values* EUR million	Interest rate risks		Currency risks	
	31.12.2016	**31.12.2017**	**31.12.2016**	**31.12.2017**
Residual maturities				
up to 3 months	0.0	0.0	167.4	354.0
more than 3 months up to 1 year	299.0	20.0	225.3	135.6
more than 1 up to 5 years	142.4	611.1	610.2	424.2
more than 5 years	0.00	153.1	284.0	199.0
Total	**441.4**	**784.2**	**1,286.9**	**1,112.8**

* Nominal values are calculated as the sum of whichever nominal amount (input and output side) is higher on the effective date of the conversion.

NOTES ON DERIVATIVES TRANSACTIONS

In the context of risk management, DEG regularly engages in futures trading and makes use of derivatives products. There is no trading on own account in the sense of a trading book. These instruments are deployed primarily to hedge interest rate and currency risks in the asset book.

The market values of derivatives held in the portfolio represent current replacement costs. The positive and negative market values recorded are largely calculated based on corporate models. The main determinants of these in-house models are interest rate ratios and related rates of exchange.

MISCELLANEOUS

Liability/contingent liabilities

DEG stands surety to the value of EUR 1.6 million for three enterprises as collateral for borrowing.

Provision in the amount of EUR 0.1 million was made for latent risks.

At the balance sheet date, DEG's shares in one participating interest with a book value of EUR 8.4 million were pledged as collateral in respect of liabilities of the enterprises in question.

Given the enterprises' credit rating, any liability/contingent liabilities incurred are not expected to exceed the provision for risk made for this purpose as at the balance sheet date.

Other financial obligations

DEG is required to pay a total of EUR 0.4 million annually under tenancy agreements that run until 2022.

A total of EUR 0.1 million will be payable in fees on leasing contracts for the remaining term until 2020.

Obligations from undisbursed participating interests and lendings amount to EUR 1,699.6 million. Provision of EUR 10.9 million was made for latent default risks from obligations deemed irrevocable in respect of lendings not yet disbursed.

In individual cases, employees of DEG, or third parties instructed by DEG, undertake executive functions in associated companies. The risks arising are generally covered by directors' and officers' liability insurance (D&O insurance) taken out by the associated company in question.

AVERAGE NUMBER OF STAFF OVER THE YEAR

Staff not covered by regular pay scales and senior executives	385
Staff covered by regular pay scales	184
Total	**569**

Number of female staff	305
Number of male staff	264
Total	**569**

These figures include part-time staff (116) and temporary staff (32), but exclude members of the Management Board, staff on parental leave, apprentices, interns and local staff in foreign countries.

REMUNERATION OF CORPORATE BODIES

Total charges for the Supervisory Board in the year under review came to EUR 121,650, of which EUR 37,966 was annual remuneration for membership of the Supervisory Board and its committees. Attendance fees, daily allowances and travel expenses accounted for EUR 39,899, while EUR 43,785 was for training for members of the Supervisory Board. No advances or loans were granted to members of the Supervisory Board.

Management Board remuneration for the 2017 financial year came to EUR 1,292,424. Regular annual salary components were set at a uniform rate for all members of the Management Board and amount to EUR 1,034,835 in total. Overall remuneration further includes the sum of EUR 34,053 for benefits in kind and other emoluments. The performance-related management bonus for 2017 was EUR 223,536 in total, of which EUR 111,768 will be paid over several years. In 2017, phased payments totalling EUR 111,588 were made from the deferred management bonuses for the years 2014 to 2016. These included monies for a former member of the Management Board of EUR 27,995.

No advances were provided to members of the Management Board or surviving dependants.

Phased payments of EUR 27,994.92 from the deferred management bonuses for the years 2014 to 2016 were made to one former member of the Management Board.

Total payments made to former members of the Management Board and surviving dependants amounted to EUR 836,279. Provisions of EUR 10,936,465 were made for pension obligations towards these persons.

Information on DEG's investment holdings at 31.12.2017 as per Article 285 No. 11 HGB

No.	P. No.	Business name and registered office	Currency[1]	Rate EUR 1.00 = CU[2]	DEG holding in per cent	Indirect DEG holding in per cent	Equity[3] in kCU[5]	Result[4] in kCU[5]
1.	425	Banque Gabonaise de Développement (BGD), Libreville, Gabun	XAF	655.9570	1.97		–76,599,353	–55,533,814
2.	757	Latin American Agribusiness Development Corporation S.A., Panama City, Panama	USD	1.1993	8.33		160,602	19,492
3.	1147	Banque Nationale de Développement Agricole S.A., Bamako, Mali	XOF	655.9570	21.43		36,615,743	40,021,696
4.	1480	Industrial Promotion Services (West Africa) S.A., Abidjan, Ivory Coast	XOF	655.9570	9.00		13,726,175	873,198
5.	2172	Fransabank S.A.L., Beirut, Lebanon	LBP	1,807.8650	5.00		3,206,549,007	302,937,172
6.	2217	Lebanese Leasing Company S.A.L. LLC, Beirut, Lebanon	LBP	1,807.8650	12.50		20,550,644	1,561,343
7.	2562	TOO Knauf Gips Kaptschagaj, Kaptschagaj, Kazakhstan	EUR	1.0000	40.00		22,119	6,183
8.	2615	LHF – Latin Healthcare Fund L.P., Acton, USA	USD	1.1993	10.09		[7]	[7]
9.	2728	Safety Centre International Ltd., Port Harcourt, Nigeria	NGN	367.5650	8.00		[7]	[7]
10.	2743	Kyrgyz Investment and Credit Bank, Bishkek, Kyrgyzstan	USD	1.1993	12.00		59,630	1,659
11.	2782	The SEAF Central and Eastern Europe Growth Fund (SEAFGF) LLC, Washington D.C., USA	USD	1.1993	23.90		3,425	–1,416
12.	2787	Benetex Industries Ltd., Dhaka, Bangladesh	BDT	99.2228	28.30		[7]	[7]
13.	2846	P.T. Arpeni Pratama Ocean Line Tbk., Jakarta, Indonesia	IDR	16,265.4000	3.00		–4,982,951,370	–527,960,421
14.	2893	Egyptian Direct Investment Fund Ltd., St. Peter Port, Guernsey	USD	1.1993	14.58		2,070	–152

Information on DEG's investment holdings at 31.12.2017 as per Article 285 No. 11 HGB

No.	P. No.	Business name and registered office	Currency[1]	Rate EUR 1.00 = CU[2]	DEG holding in per cent	Indirect DEG holding in per cent	Equity[3] in kCU[5]	Result[4] in kCU[5]
15.	2913	SEAF Sichuan SME Investment Fund LLC, Washington D.C., USA	USD	1.1993	13.33		19,814	–4,477
16.	2914	Accession Mezzanine Capital L.P., London, UK	EUR	1.0000	8.72		417	–1,012
17.	3030	Turkish Private Equity Fund I L.P., St. Peter Port, Guernsey	USD	1.1993	11.33		9,106	119
18.	3046	Penguen Gida Sanayi A.S., Bursa, Turkey	TRY	4.5464	12.74		49,672	–10,645
19.	3067	Ethos Technology Fund I Partnership, Johannesburg, Republic of South Africa	ZAR	14.8054	9.25		57,617	–39,198
20.	3109	DBG Eastern Europe II L.P., St. Helier, Jersey	EUR	1.0000	14.88		22,666	14,518
21.	3117	Industrial Promotion Services Kenya Ltd., Nairobi, Kenya	KES	123.8350	13.22		4,604,932	–525,484
22.	3230	SEAVI Advent Equity IV Fund Ltd. Partnership, George Town, Cayman Islands	USD	1.1993	13.48		[7]	[7]
23.	3344	European Financing Partners S.A., Luxembourg	EUR	1.0000	7.63		151	–9
24.	3379	Unibank Commercial Bank OJSC, Baku, Azerbaijan	AZN	2.0499	24.37		–87,287	–117,132
25.	3436	Nanchong City Commercial Bank, Nanchong, People's Republic of China	CNY	7.8002	5.99		11,762,078	1,969,056
26.	3459	ePak Holdings Ltd., Hong Kong	USD	1.1993	12.44		49,355	3,371
27.	3489	SEAF India International Growth Fund, Port Louis, Mauritius	USD	1.1993	6.57		4,732	–1,113
28.	3491	Advent Central & Eastern Europe III L.P., Boston, USA	EUR	1.0000	5.35		16,162	4,212
29.	3498	Balkan Accession Fund C.V., Curacao	EUR	1.0000	11.36		58,034	17,597
30.	3511	Open Joint Stock Company (Center Invest Bank Group), Rostov-On-Don, Russian Federation	RUB	69.3920	16.14		11,511,233	1,003,971
31.	3541	LC Fund II, George Town, Cayman Islands	USD	1.1993	9.07		[7]	[7]
32.	3543	Latin Power III, L.P., George Town, Cayman Islands	USD	1.1993	1.81		11,718	–3,195
33.	3665	TOO Isi Gips Inder, Rayon Inderskij, Kazakhstan	KZT	398.7500	40.00		1,115,640	123,632
34.	3696	Open Joint Stock Company Bank Respublika, Baku, Azerbaijan	AZN	2.0499	10.87		25,057	–44,318
35.	3765	Advent Latin American Private Equity Fund III-B L.P., Wilmington, USA	USD	1.1993	100.00		1,264	–155
36.	3765.1	Advent Latin American Private Equity Fund III, Wilmington, USA	USD	1.1993		3.47	[7]	[7]
37.	3766	CDH China Growth Capital Fund II L.P., George Town, Cayman Islands	USD	1.1993	3.17		359,307	89,186
38.	3796	Russia Partners II, L.P., New York, USA	USD	1.1993	3.88		153,617	–24,268
39.	3810	Ethos Private Equity Fund V, Johannesburg, Republic of South Africa	USD	1.1993	13.23		689	–8,894
40.	3825	Vantage Mezzanine Fund Trust, Johannesburg, Republic of South Africa	ZAR	14.8054	6.83		39,024	–11,472
41.	3878	Ace Power Embilipitiya Pvt Ltd., Colombo, Sri Lanka	LKR	184.0235	26.00		3,093,310	1,113,511
42.	3890	Evonik Lanxing (Rizhao) Chemical Industrial Co. Ltd., Rizhao, People's Republic of China	EUR	1.0000	10.00		42,352	3,451
43.	3921	Banco Finterra S.A., México D.F., México	MXN	23.6215	14.94		745,000	–34,000

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44.	3923	Orient Power Company (Private) Ltd., Lahore, Pakistan	PKR	132.6740	17.96		9,575,882	1,763,240
45.	4004	InecoBank CJSC, Yerevan, Armenia	AMD	580.2450	5.75		43,465,118	5,157,570
46.	4078	Banco Pine SA, São Paulo, Brazil	BRL	3.9711	4.60		1,173,513	–28,514
47.	4083	Global Environment Emerging Markets Fund III-A L.P., Alberta, Canada	USD	1.1993	4.58		71,190	–1,222
48.	4090	DLJ SAP International, LLC, New York, USA	USD	1.1993	3.29		31,152	–575
49.	4095	Emerging Europe Leasing and Finance (EELF) B.V., Amsterdam, Netherlands	EUR	1.0000	25.00		4,021	580
50.	4149	Transkapitalbank PJSC, Moscow, Russian Federation	RUB	69.3920	9.04		23,679,736	4,529,793
51.	4193	OAO Bucharagips, Bukhara, Uzbekistan	UZS	9,691.4300	24.89		19,592,898	7,852,917
52.	4209	Turkish Private Equity Fund II L.P., St. Peter Port, Guernsey	EUR	1.0000	4.95		635,459	–80,280
53.	4210	The Kibo Fund LLC, Ebene, Mauritius	EUR	1.0000	13.80		19,094	452
54.	4216	PCC-DEG Renewables GmbH, Duisburg, Germany	EUR	1.0000	40.00		18,527	555
55.	4226	Lombard Asia III L.P., George Town, Cayman Islands	USD	1.1993	2.13		48,442	–289
56.	4244	CPFL Energias Renováveis S.A., São Paulo, Brazil	BRL	3.9711	1.29		7,970,021	900,885
57.	4300	Global Credit Rating Company Ltd., Road Town, British Virgin Islands	USD	1.1993	26.98		1,347	4,338
58.	4323	Nexxus Capital Private Equity Fund III, México D.F., México	USD	1.1993	10.26		58,091	–1,261
59.	4420	African Development Partners I, LLC, Ebene, Mauritius	EUR	1.0000	5.54		279,939	1,726
60.	4422	Banyan Tree Growth Capital, L.L.C., Port Louis, Mauritius	USD	1.1993	27.00		65,595	4,779
61.	4503	Istmo Compania de Reaseguros, Inc., Panama City, Panama	USD	1.1993	12.47		[7]	[7]
62.	4507	India Agri Business Fund Ltd., Ebene, Mauritius	USD	1.1993	16.67		77,227	46
63.	4518	OJSC Tourism Promotion Services, Dushanbe, Tajikistan	TJS	10.5805	11.02		–676	–30,416
64.	4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund, L.P., George Town, Cayman Islands	USD	1.1993	24.37		14,683	–14
65.	4538	Asia Insurance 1950 Public Company Ltd., Bangkok, Thailand	THB	39.1005	24.62		492,118	53,458
66.	4557	Tolstoi Investimentos S.A. São Paolo, Brazil	BRL	3.9711	31.14		[7]	[7]
67.	4580	Acon Latin America Opportunities, Toronto, Canada	USD	1.1993	39.99		49,258	–4,625
68.	4582	The Africa Health Fund, LLC, Port Louis, Mauritius	USD	1.1993	9.49		72,115	18,141
69.	4636	Renewable Energy Asia Fund, L.P., London, UK	EUR	1.0000	11.58		99,334	2,905
70.	4641	OOO Gematek, Saint Petersburg, Russian Federation	EUR	1.0000	5.76		1,003,616	101,978
71.	4650	Komercijalna Banka a.d. Beograd, Belgrade, Serbia	RSD	118.3500	4.60		55,424,302	–8,063,183
72.	4680	PT Indonesia Infrastructure, Jakarta, Indonesia	IDR	16,265.4000	15.12		2,290,501,000	101,793,000

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73.	4684	Emerging Europe Accession Fund, Amsterdam, Netherlands	EUR	1.0000	10.15		100,745	–891
74.	4765	GEF Africa Sustainable Forestry Fund, Chevy Chase, USA	USD	1.1993	12.96		130,682	–1,707
75.	4799	Asia Environmental Partners (PF1) L.P., Grand Cayman, Cayman Islands	USD	1.1993	15.96		68,961	–839
76.	4881	Catalyst Fund 1 LLC, Port Louis, Mauritius	USD	1.1993	10.17		81,766	–3,450
77.	4924	Private Equity New Markets III K/S, Hellerup, Denmark	USD	1.1993	5.55		143,486	20,472
78.	4925	Africa Joint Investment Fund, Ebene, Mauritius	USD	1.1993	16.00		32,895	–1,962
79.	4927	Aureos South-East Asia Fund II, L.P., Toronto, Canada	USD	1.1993	5.74		188,979	13,245
80.	4934	Interact Climate Change Facility S.A., Luxembourg	EUR	1.0000	7.69		127	17
81.	4941	The CapAsia ASEAN Infrastructure Fund III L.P., Grand Cayman, Cayman Islands	USD	1.1993	13.17		65,731	8,539
82.	4942	EMX Capital Partners L.P., México D.F., México	USD	1.1993	20.08		49,349	1,347
83.	4971	Knauf Gips Buchara OOO, Bukhara, Uzbekistan	UZS	9,691.4300	25.00		152,633,390	23,025,185
84.	4979	Deepak Fasteners Ltd., Ludhiana, India	INR	76.6055	0.01		1,302,003	–336,544
85.	4989	Harmon Hall Holding S.A. de C.V., México D.F., México	MXN	23.6215	12.76		276,278	56,867
86.	5050	Maghreb Private Equity Fund III, Port Louis, Mauritius	EUR	1.0000	9.78		153,565	–16,205
87.	5062	Lereko Metier Sustainable Capital Fund Trust, Sandhurst, Republic of South Africa	ZAR	14.8054	14.49		185,378	26,074
88.	5068	Mediterra Capital Partners I, L.P., St. Peter Port, Guernsey	EUR	1.0000	6.09		103,055	29,658
89.	5084	Orient Investment Properties Ltd., Road Town, British Virgin Islands	USD	1.1993	4.07		595,618	–2,669
90.	5085	Mongolia Opportunities Fund I L.P., Grand Cayman, Cayman Islands	USD	1.1993	13.33		21,461	–1,276
91.	5102	Worldwide Group, Inc, Charlestown, St. Kitts & Nevis	USD	1.1993	32.28		22,740	758
92.	5122	Berkeley Energy Wind Mauritius Ltd., Ebene, Mauritius	EUR	1.0000	25.83		100,619	3,576
93.	5125	EMF NEIF I (A) L.P., Southampton, UK	USD	1.1993	28.08		35,716	10,342
94.	5134	VI (Vietnam Investments) Fund II, L.P., George Town, Cayman Islands	USD	1.1993	7.86		195,557	–108
95.	5140	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet, São Paulo, Brazil	BRL	3.9711	39.69		35,087	9,206
96.	5142	Russia Partners Technology Fund, L.P., Grand Cayman, Cayman Islands	USD	1.1993	21.59		126,367	–1,406
97.	5172	Teak Tree Investments, George Town, Cayman Islands	USD	1.1993	16.44		23,182	–465
98.	5203	Clean Energy Transition Fund L.P., St. Peter Port, Guernsey	EUR	1.0000	15.38		59,812	20,560
99.	5216	Ambit Pragma Fund II, Mumbai, India	INR	76.6055	10.68		1,709,094	–761,537

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100.	5227	Equis Asia Fund L.P., George Town, Cayman Islands	USD	1.1993	4.65		319,906	1,079
101.	5240	Grassroots Business Investors Fund I L.P., George Town, Cayman Islands	USD	1.1993	16.36		19,524	–286
102.	5264	Adenia Capital (III) LLC Ltd., Port Louis, Mauritius	EUR	1.0000	10.44		93,556	3,915
103.	5283	Lereko Metier Solafrica Fund I Trust, Johannesburg, Republic of South Africa	ZAR	14.8054	47.50		191,069	51,449
104.	5295	UT Bank Ltd., Accra, Ghana	GHS	5.4390	13.52		[7]	[7]
105.	5300	Latin Renewables Infrastructure Fund, L.P., Dover, USA	USD	1.1993	14.06		23,899	–1,615
106.	5318	Victoria South American Partners II L.P., Toronto, Canada	USD	1.1993	3.03		389,264	33,182
107.	5321	Adobe Social Mezzanine Fund I, L.P., Montreal, Canada	USD	1.1993	24.75		9,857	–1,153
108.	5331	CoreCo Central America Fund I L.P., Wilmington, USA	USD	1.1993	22.00		10,260	–64
109.	5333	Elbrus Capital Fund II, L.P., George Town, Cayman Islands	USD	1.1993	3.12		374,070	114,397
110.	5378	Armstrong S.E. Asia Clean Energy Fund L.P., Singapore	USD	1.1993	7.54		130,960	–145
111.	5386	Archimedes Health Developments Ltd., Limassol, Cyprus	USD	1.1993	19.23		[7]	[7]
112.	5387	BCR Investment Company Ltd., Port Louis, Mauritius	USD	1.1993	15.63		43,978	1,760
113.	5388	AGF Latin America L.P., London, UK	USD	1.1993	19.72		56,639	15,969
114.	5405	ALAOF Brasil Infra Holdings Fundo de Investimentos em Participacoes, São Paulo, Brazil	BRL	3.9711	15.65		112,644	–260
115.	5413	ZEP-RE (PTA Reinsurance Company), Nairobi, Kenya	USD	1.1993	5.96		199,931	19,297
116.	5416	Union Agriculture Group Corp., Tortola, British Virgin Islands	USD	1.1993	2.80		319,950	–98,225
117.	5434	African Development Partners II L.P., St. Peter Port, Guernsey	USD	1.1993	3.45		280,279	–17,306
118.	5442	Banyan Tree Growth Capital - II, LLC, Port Louis, Mauritius	USD	1.1993	13.94		124,024	2,762
119.	5443	Altra Private Equity Fund II L.P., Grand Cayman, Cayman Islands	USD	1.1993	3.88		186,533	–23,689
120.	5459	Falcon House Partners Indonesia Fund I, George Town, Cayman Islands	USD	1.1993	8.76		222,320	–2,317
121.	5460	Lombard Asia IV L.P., George Town, Cayman Islands	USD	1.1993	5.57		176,999	–4,322
122.	5478	Schulze Global Ethiopia Growth and Transformation Fund I, L.P., George Town, Cayman Islands	USD	1.1993	3.38		31,708	2,351
123.	5481	SAP I Brazil Aiv 3, L.P., Toronto, Canada	USD	1.1993	8.46		32,442	–20,583
124.	5482	VSAP II Brazil Aiv 2, L.P., Toronto, Canada	USD	1.1993	9.29		217,341	–17,365
125.	5484	Parque Eólico la Carabina I, S.A.P.I. de C.V., México D.F., México	MXN	23.6215	17.86		–73,554	–73,481
126.	5485	Parque Eólico la Carabina II, S.A.P.I. de C.V., México D.F., México	MXN	23.6215	17.86		–72,288	–72,226

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127.	5486	Parque Eólico el Mezquite, S.A.P.I.de C.V., México D.F., México	MXN	23.6215	17.86		–93,842	–93,711
128.	5492	Softlogic Life Insurance PLC, Colombo, Sri Lanka	LKR	184.0235	19.00		1,962,166	966,843
129.	5493	Paraguay Agricultural Corporation S.A., Luxembourg	PYG	6,677.4000	15.83		610,581,789	–6,380,574
130.	5505	ADP Enterprises W.L.L., Manama, Bahrain	BHD	0.4521	23.26		216,832	65,930
131.	5506	CGFT Capital Pooling GmbH & Co. KG, Berlin, Germany	EUR	1.0000	40.00		–69	–31
132.	5515	MGM Sustainable Energy Fund L.P., Toronto, Canada	USD	1.1993	15.82		33,689	–1,316
133.	5532	The Enterprise Expansion Fund, S.A. SICAV-SIF, Luxembourg	EUR	1.0000	10.31		6,274	–116
134.	5533	Takura II Feeder Fund Partnership, Cape Town, Republic of South Africa	USD	1.1993	24.75		28,508	6,086
135.	5537	Uttam Galva Metallics Ltd., Mumbai, India	INR	76.6055	8.56		18,248,800	–1,833,800
136.	5569	Portland Caribbean Fund II, L.P., George Town, Cayman Islands	USD	1.1993	15.37		43,757	–7,640
137.	5573	CapMan Russia II Fund L.P., St. Peter Port, Guernsey	EUR	1.0000	12.57		14,306	–1,661
138.	5577	Oragroup S. A., Lome, Togo	XOF	655.9570	3.19		106,988,000	15,150,000
139.	5583	ACON Latin America Opportunities Fund IV-A, L.P., Toronto, Canada	USD	1.1993	39.90		45,525	8,754
140.	5587	Navegar I, L.P., George Town, Cayman Islands	USD	1.1993	13.23		88,252	260
141.	5597	Mediterrania Capital II (SICAV) P.L.C., Qormi, Malta	EUR	1.0000	10.44		94,249	11,519
142.	5604	Quadria Capital Fund L.P., George Town, Cayman Islands	USD	1.1993	8.33		163,174	24,927
143.	5608	Bodesa S.A.P.I. de C.V., Villa De Alvarez, México	MXN	23.6215	15.89		996,456	107,779
144.	5622	Lovcen Banka AD, Podgorica, Montenegro	EUR	1.0000	28.05		8,548	199
145.	5627	LeapFrog Financial Inclusion Fund II, L.P., Ebene, Mauritius	USD	1.1993	5.00		222,165	7,716
146.	5631	Multi Financial Group Inc., Panama City, Panama	PAB	1.1941	6.95		162,660	6,439
147.	5644	Berkeley Energy Netherlands Holding B.V., Amsterdam, Netherlands	EUR	1.0000	15.00		[7]	[7]
148.	5647	AEP China Hydro, Ltd., Ebene, Mauritius	USD	1.1993	30.18		60,394	12,832
149.	5661	Grassland Finance Ltd., Hong Kong	HKD	9.3720	24.95		424,285	–24,709
150.	5713	Orilus Investment Holdings Pte. Ltd., Singapore	USD	1.1993	32.98		67,684	–223
151.	5715	Frontier Bangladesh II L.P., Grand Cayman, Cayman Islands	USD	1.1993	20.00		439	–2,830
152.	5718	Asia Environmental Partners II.L.P., Grand Cayman, Cayman Islands	USD	1.1993	8.28		98,253	2,413
153.	5720	Kua Mex Foods, S. A. P. I. de C. V., México D.F., México	MXN	23.6215	15.73		1,304,875	–41,948
154.	5721	Soleq Holdings, George Town, Cayman Islands	USD	1.1993	6.82		211,547	25,000

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155.	5734	Euromena III Ltd. Partnership, London, UK	USD	1.1993	9.00		54,796	–3,342
156.	5745	Lereko Metier REIPPP Fund Trust, Sandhurst, Republic of South Africa	ZAR	14.8054	32.28		94,097	17,186
157.	5749	Investec Africa Private Equity Fund 2 L.P., St. Peter Port, Guernsey	USD	1.1993	8.48		123,555	4,190
158.	5770	Malacca Trust Pte. Ltd., Singapore	IDR	16,265.4000	13.47		880,913,525	84,030,721
159.	5793	The Kibo Fund II LLC, Ebene, Mauritius	USD	1.1993	19.96		9,006	–1,667
160.	5797	AfricInvest Fund III, Port Louis, Mauritius	EUR	1.0000	4.40		85,636	–6,338
161.	5816	Energon Holdings, George Town, Cayman Islands	USD	1.1993	10.50		306,582	–3,764
162.	5837	Aavishkaar Frontier Fund, Ebene, Mauritius	USD	1.1993	20.82		5,578	–1,261
163.	5847	ICE TopCo Ltd. S.A., Luxembourg	EUR	1.0000	6.04		186,832	47,798
164.	5860	Abraaj North Africa Fund II L.P., London, UK	USD	1.1993	4.27		193,075	31,267
165.	5878	Creed Healthcare Holdco Ltd., Valletta, Malta	USD	1.1993	7.50		299,364	632
166.	5912	Gaja Capital Fund II Ltd., Port Louis, Mauritius	USD	1.1993	7.89		–64	–4,823
167.	5935	Kibele B.V., Amsterdam, Netherlands	USD	1.1993	22.25		4,517	–4,202
168.	5942	Emerald Sri Lanka Fund I Ltd., Port Louis, Mauritius	USD	1.1993	23.53		5,116	–1,049
169.	5979	Metier Capital Growth Fund II Partnership, Sandhurst, Republic of South Africa	ZAR	14.8054	16.43		573,917	650
170.	5998	Tournai Investments S.L., Barcelona, Spain	USD	1.1993	15.38		46,154	5,083
171.	6014	HydroChile Holdings, George Town, Cayman Islands	CLP	736.8950	10.40		153,406,603	–722,525
172.	6038	Kandeo Fund II (A) L.P., Toronto, Canada	USD	1.1993	17.94		9,131	587
173.	6039	Surfline Communications Ltd., Accra, Ghana	GHC	5.4372	4.25		–160,222	–182,045
174.	6042	AIIF2 Towers Mauritius Ltd., Port Louis, Mauritius	USD	1.1993	16.10		178,899	12,403
175.	6047	VI (Vietnam Investments) Fund III, L.P., George Town, Cayman Islands	USD	1.1993	6.25		8,515	–5,648
176.	6048	Medisia Investment Holdings Pte Ltd., Singapore	USD	1.1993	32.65		59,583	19,333
177.	6052	Abraaj Africa Fund III L.P., George Town, Cayman Islands	USD	1.1993	4.69		239,515	73,074
178.	6076	Equis Direct Investment Fund, L.P., George Town, Cayman Islands	USD	1.1993	2.68		238,973	21,179
179.	6086	Aqua Agro Fundo de Investimento em Participações, São Paulo, Brazil	BRL	3.9711	29.90		101,903	–214
180.	6100	Americas Energy Fund II Clean Energy Ltd. Partnership, Toronto, Canada	USD	1.1993	17.14		29,294	–973
181.	6129	Navegar II (Netherlands) B.V., Amsterdam, Netherlands	USD	1.1993	29.17		44,675	–2,794

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182.	6157	Vantage Mezzanine III Pan African Sub-Fund Partnership, Johannesburg, Republic of South Africa	USD	1.1993	6.53		24,283	1,086
183.	6159	Vantage Mezzanine III Southern African Sub-Fund Partnership, Johannesburg, Republic of South Africa	ZAR	14.8054	11.33		888,374	112,534
184.	6173	ACON Retail MXD, L.P., Toronto, Canada	USD	1.1993	100.00		14,066	–8,489
185.	6173.1	Grupo Vizion Lerma, S.A.P.I. de C.V. México	MXN	23.6215		6.30	1,853,430	–433,891
186.	6176	Equis DFI Feeder, L.P., George Town, Cayman Islands	USD	1.1993	37.00		8,899	125
187.	6200	Qalaa Holdings PLC, Cairo, Egypt	EGP	21.3156	0.85		6,429,284	–2,003,322
188.	6216	Stratus Capital Partners B L.P., Edinburgh, UK	USD	1.1993	73.31		9,098	3,968
189.	6216.1	Stratus Group – Stratus Capital Partners (SCP), Edinburgh, UK	USD	1.1993		15.66	68	67
190.	6230	Ashmore Andean Fund II, L.P., Bogotá, Colombia	COP	3,578.0000	10.20		14,298	–2,631
191.	6232	Taxim Capital Partners I L.P., Jersey	EUR	1.0000	8.58		23,058	–1,927
192.	6238	Cambodia-Laos-Myanmar Development Fund II L.P., Singapore	USD	1.1993	15.54		935	–2,444
193.	6240	Pembani Remgro Infrastructure Mauritius Fund I L.P., Ebene, Mauritius	USD	1.1993	10.35		91,886	2,224
194.	6250	Mobisol GmbH, Berlin, Germany	EUR	1.0000	12.30		19,251	–10,769
195.	6261	Falcon House Partners Fund II, L.P., George Town, Cayman Islands	USD	1.1993	4.00		70,445	–10,969
196.	6317	Deep Catch Namibia Holdings (Proprietary) Ltd., Windhoek, Namibia	NAD	14.8358	30.00		111,300	346
197.	6321	Azure Power Global Ltd., Ebene, Mauritius	USD	1.1993	2.76		886,568	–18,374
198.	6323	ECP Africa Fund IV LLC, Ebene, Mauritius	USD	1.1993	12.72		112,582	7,218
199.	6347	Principle Capital Fund IV L.P., George Town, Cayman Islands	USD	1.1993	12.47		35,402	–2,109
200.	6395	MC II Pasta Ltd., Qormi, Malta	EUR	1.0000	36.14		15,985	–623
201.	6397	AFIG Fund II, L.P., Port Louis, Mauritius	USD	1.1993	9.70		1,024	–1,391
202.	6399	Adenia Capital (IV) L.P., Port Louis, Mauritius	EUR	1.0000	8.65		1,793	–1,315
203.	6401	Apis Growth 2 Ltd., Ebene, Mauritius	USD	1.1993	25.63		35,871	5,414
204.	6428	Africa Bovine Ltd., Ebene, Mauritius	USD	1.1993	11.39		95,815	6,709
205.	6431	Whitlam Holding Pte. Ltd., Singapore	USD	1.1993	38.74		28,938	1,410
206.	6449	Metier Retailability en commandite Partnership, Sandhurst, South Africa	ZAR	14.8054	23.75		564,057	–10,174
207.	6450	PT Bank Victoria International Tbk., Jakarta, Indonesia	IDR	16,265.4000	9.00		2,646,640,652	118,837,398

Information on DEG's investment holdings at 31.12.2017 as per Article 285 No. 11 HGB

No.	P. No.	Business name and registered office	Currency[1]	Rate EUR 1.00 = CU[2]	DEG holding in per cent	Indirect DEG holding in per cent	Equity[3] in kCU[5]	Result[4] in kCU[5]
208.	6452	Catalyst MENA Clean Energy Fund L.P., St. Peter Port, Guernsey	USD	1.1993	19.44		1,139	–795
209.	6466	Catalyst Fund II LP, Port Louis, Mauritius	USD	1.1993	7.77		0	–2,907
210.	6470	ADP II Holding 6 W.L.L., Manama, Bahrain	BHD	0.4521	16.67		27,913	6,754
211.	6476	New Forests Company Holdings I Ltd., Port Louis, Mauritius	USD	1.1993	16.67		46,701	–2,572
212.	6499	Phi Capital Trust, Chennai, India	INR	76.6055	22.50		0	237,050
213.	6523	North Haven Thai Private Equity L.P., Grand Cayman, Cayman Islands	USD	1.1993	8.73		[6]	[6]
214.	6528	KNAUF Gypsum Philippines Inc., Makati City, Philippines	PHP	59.7950	25.05		205,180	–34,570
215.	6529	Maison Capital Fund L.P., Shenzhen, People's Republic of China	CNY	7.8002	11.50		[6]	[6]
216.	6531	Dolce M8 Holdco Ltd., Port Louis, Mauritius	USD	1.1993	12.50		79,999	8,352
217.	6533	African Infrastructure Investment Fund 3 Limited Partnership, Cape Town, South Africa	ZAR	14.8054	16.67		[6]	[6]
218.	6564	PT Verena Multi Finance Tbk, Jakarta, Indonesia	INR	76.6055	19.99		286,741	6,466
219.	6568	SSG Secured Lending Opportunities II L.P., Hong Kong	HKD	9.3720	4.91		[6]	[6]
220.	6590	Emerging Europe Growth Fund III L.P., Wilmington, USA	USD	1.1993	13.33		[6]	[6]
221.	6598	Abraaj Global Credit Fund, L.P., Grand Cayman, Cayman Islands	USD	1.1993	8.06		[6]	[6]
222.	6601	Mediterrania Capital III, L.P., Port Louis, Mauritius	USD	1.1993	11.65		[6]	[6]
223.	6617	IAPEF 2 SJL Limited, Ebene, Mauritius	USD	1.1993	15.53		123,555	4,190
224.	6638	Bozano Investimentos Growth Capital Fund I-B L.P., Brazil	BRL	3.9711	31.25		[6]	[6]
225.	6641	Darby Latin American Private Debt Fund IIIA L.P., Toronto, Canada	USD	1.1993	74.96		[6]	[6]
226.	6645	Fortress Vietnam Investment Holdings Pte. Ltd., Singapore	USD	1.1993	11.58		[6]	[6]
227.	6678	Adobe Mezzanine Fund II Limited Partnership, México City, México	MXN	23.6215	23.70		[6]	[6]
228.	6718	Clearwater China Investments Limited, Grand Cayman, Cayman Islands	USD	1.1993	10.83		[6]	[6]
229.	6730	Leiden PE II, L.P., Toronto, Canada	USD	1.1993	27.03		8,290	–1,460
230.	6736	PAG Growth I LP, Grand Cayman, Cayman Islands	USD	1.1993	12.06		[6]	[6]
231.	6808	GENBRIDGE Capital Fund I L.P., Beijing, People's Republic of China	CNY	7.8002	3.09		[6]	[6]
232.	6837	Denham International Power SCSp, Luxembourg	EUR	1.0000	14.68		[6]	[6]

[1] ISO currency code.
[2] CU-currency unit in local currency.
[3] Equity as per HGB Article 266, Sections 3 & 272.
[4] Result as per HGB Article 275, Sections 2 & 3.
[5] kCU = 1,000 currency units in local currency.
[6] Enterprise in start-up phase, no annual statements of accounts available yet.
[7] No current annual statements of accounts available.

CORPORATE BODIES

Supervisory Board

Hans-Joachim Fuchtel
Chairman
Parliamentary State Secretary
Federal Ministry for Economic Cooperation and Development, Berlin

Prof. Dr Joachim Nagel
First Deputy Chairman
Member of the Board of Managing Directors, KfW, Frankfurt am Main
(from 01.11.2017)

Dr Norbert Kloppenburg
First Deputy Chairman
Member of the Board of Managing Directors, KfW, Frankfurt am Main
(up to 31.10.2017)

Prof. Dr Christiane Weiland
Second Deputy Chairwoman
Head of Degree Programme, Business Administration – Banking
Baden-Württemberg Cooperative State University, Karlsruhe
(from 20.02.2017)

Corinna Linner
Second Deputy Chairwoman
Auditor
(up to 14.02.2017)

Dr Amichia Biley
Senior Investment Manager,
Department for Business Innovation and Syndication
DEG, Cologne
(from 20.02.2017)

Eberhard Brandes
CEO, WWF Germany, Berlin

Bertram Dreyer
Senior Investment Manager, Department for Project Finance, Infrastructure and Risk Capital
DEG, Cologne
(from 20.02.2017)

Dr Patricia Flor
Head of Division, International Order, United Nations and Arms Control
Federal Foreign Office, Berlin
(from 10.03.2017)

Dr Sabine Hepperle
Head of Division, Mittelstand Policy
Federal Ministry for Economic Affairs and Energy, Berlin
(from 10.03.2017)

Arndt G. Kirchhoff
Managing Partner
Kirchhof Automotive GmbH & Co. KG, Attendorn

Caroline Kremer
Vice Chair, DEG Works Council & Equal Opportunities Officer
DEG, Cologne
(from 20.02.2017)

Sarah Madew
Senior Counsel, Legal Department Africa/Latin America
DEG, Cologne
(from 20.02.2017)

Dr Michael Meister
Parliamentary State Secretary
Federal Ministry of Finance, Berlin

Dorothea Mikloweit
Technical Coordinator, Department for Transaction Management
DEG, Cologne
(from 20.02.2017)

Dr Ulrich Schröder
Chairman of the Executive Board,
KfW, Frankfurt am Main

Stephan Steinlein
State Secretary
Federal Foreign Office, Berlin
(up to 14.02.2017)

Brigitte Zypries
Federal Minister for Economic Affairs and Energy, Berlin
(up to 26.01.2017)

Management Board

Philipp Kreutz

Christiane Laibach

Bruno Wenn
Chairman

Cologne, 7 February 2018

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

The Management Board

Laibach Kreutz Wenn

AUDITOR'S REPORT

"Independent auditor's report

To Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne

Report on audit of annual financial statements and Management Report

Audit opinion

We have audited the annual financial statements – consisting of balance sheet as at 31 December 2017, the profit and loss account for the financial year from 1 January 2017 to 31 December 2017, and the appendix, which includes the valuation/accounting criteria – of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne. We have additionally audited DEG's Management Report for the financial year from 1 January 2017 to 31 December 2017. In keeping with statutory provisions under German law, we have not verified as to substance the declaration on page 6 of the Management Report on corporate management as per Article 289f, Section 4 HGB (information on quota of female staff).

In our judgment, based on the audit findings

- the attached annual financial statements comply, in all significant aspects, with German commercial law as it applies to corporations, and give a true and fair view of the net worth and financial situation of the company as at 31 December 2017, and of its earnings situation for the financial year from 1 January 2017 to 31 December 2017, in accordance with standard German accounting principles, and

- the attached Management Report as a whole conveys an accurate view of the company's situation. This Management Report conforms to the annual financial statements in all essential points. It complies with German statutory requirements and presents an accurate picture of the opportunities and risks of future development.

In accordance with Article 322, Section 3, Clause 1 HGB, we declare that our audit has not given rise to any objections in respect of the correctness of the annual statements of accounts and the Management Report.

Basis for the audit opinions
We conducted our audit of the annual statements of accounts and the Management Report in accordance with Article 317 HGB and in compliance with the German standards for audits of financial statements established by Institut der Wirtschaftsprüfer (the German Institute of Public Auditors IDW). Additional information on our responsibility under these provisions and principles may be found in the section "Auditor's responsibility for the audit of the annual financial statements and the Management Report" of this report. In accordance with German commercial law and provisions regulating the profession, we are independent of the company and have fulfilled our other professional duties under the German regulations in compliance with these requirements. We are of the opinion that the audit evidence we have gathered is suitable and sufficient to serve as the basis of our audit opinions on the annual financial statements and the Management Report.

Responsibility of the legal representatives and the Supervisory Board for the annual financial statements and the Management Report
The legal representatives are responsible for drawing up the annual financial statements, which comply in all essential points with German commercial law as it applies to corporations, and for ensuring that the annual financial statements give a true and fair view of the net worth, financial and earnings situation of the company in accordance with German accounting principles, in order to enable the annual financial statements to be drawn up free from – deliberate or unintentional – misstatements.

When compiling the annual financial statements, the legal representatives have a responsibility to evaluate the company's ability to continue as a going concern. Furthermore, they have a responsibility to detail, where pertinent, issues connected to the continuation of corporate activities. They also have a responsibility to account for the going-concern accounting principles, provided this is not prevented by actual or statutory conditions.

The legal representatives are further responsible for drawing up a Management Report that conveys an accurate overall view of the company's situation, is consistent in all essential points with the annual financial statements, complies with German statutory requirements, and gives an accurate picture of the opportunities and risks of future development. Furthermore, the legal representatives are responsible for the arrangements and measures (systems) they have deemed necessary to enable the compilation of a Management Report in accordance with the applicable provisions under German law, and to ensure that sufficient suitable evidence for the statements in the Management Report can be provided.

The Supervisory Board is responsible for monitoring the company's financial reporting process used to prepare the annual financial statements and the Management Report.

Other information
The Supervisory Board is responsible for the "Report of the Supervisory Board". Otherwise, the responsibility for other information rests with the legal representatives.

Other information comprises the following sections of DEG's 2017 annual report, which will presumably be made available to us after this date: "DEG at a glance", "Report by the Supervisory Board" and "Corporate Governance Report 2017".

Our audit opinions on the annual financial statements and the Management Report do not extend to the other information. Hence, we neither give an audit opinion, nor come to any other kind of audit conclusion in relation to them.

In connection with our audit, we have a responsibility to read the other information provided and to recognise whether the other information

- contains significant inconsistencies with the annual financial statements, the Management Report or the understanding we have gained in the course of our audit, or

- appears inaccurately presented in any other way.

If, based on the work we have carried out, we come to the conclusion that a significant misrepresentation of this other information is present, we are obliged to report on this fact. We have nothing to report in this instance.

Auditor's responsibility for the audit of the annual financial statements and the Management Report

Our goal is to achieve sufficient certainty on whether the annual financial statements as a whole are free from significant – deliberate or unintentional – misstatements; whether the Management Report as a whole conveys an accurate picture of the company's situation as well as being consistent in all essential respects with the annual financial statements and with the insights gained during the audit; whether it complies with German statutory requirements and gives an accurate view of the opportunities and risks of future development. Our goal is further to issue an audit certificate that comprises our audit opinions on the annual financial statements and the Management Report.

Sufficient certainty is a high degree of certainty, but does not guarantee that an audit carried out in accordance with Article 317 HGB and in compliance with the German standards for audits of financial statements established by Institut der Wirtschaftsprüfer (the German Institute of Public Auditors IDW) will always discover a material misstatement. Misstatements may arise from infringements or errors and are regarded as significant if they, singly or as a whole, influence the commercial decisions taken by recipients on the basis of these annual financial statements and this Management Report.

In the course of our audit, we exercise judgment, as duty bound, and maintain a critical attitude. We additionally

- identify and evaluate the risks of significant – deliberate or unintentional – misstatements in the annual financial statements and the Management Report, plan and carry out audit activities in response to these risks, and gather audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that significant misstatements remain undiscovered is greater in regard to infringements than in the case of errors, since infringements may involve fraudulent collaboration, forgeries, deliberate deficiencies, misleading representations and the suspension of internal control systems;

- gain an understanding of the internal control system relevant to the auditing of the annual financial statements, and of the arrangements and measures relevant to the auditing of the Management Report. This enables us to plan audit activities that are appropriate in the circumstances, albeit not with the aim of giving an audit opinion on the effectiveness of these corporate systems;

- evaluate the appropriateness of the financial reporting methods used by the legal representatives, as well as the extent to which the estimated values and associated statements presented by the legal representatives are justifiable;

- draw conclusions about the suitability of the going concern accounting principle applied by the legal representatives as well as come to a view, based on the audit evidence received, on whether significant uncertainty pertains in connection with events or circumstances that might lead to significant doubt about the company's ability to continue as a going concern. Should we come to the conclusion that significant uncertainty is present, we have an obligation to draw attention to the relevant details in the annual financial statements and the Management Report in our audit certificate, or, should such statements be inappropriate, to modify our audit opinion. We base our conclusions on the audit evidence obtained by the date on which our certificate is issued. Future events or circumstances may nevertheless result in the company not being able to continue as a going concern;

- evaluate the overall presentation, the organisation and the content of the annual financial statements, including the data, and take a view on whether the annual financial statements present the basic business transactions and events in a manner that gives a true and fair view of the net worth, financial and earnings situation of the company in accordance with German accounting principles;

- valuate the extent to which the Management Report is consistent with the annual financial statements and complies with the law, while also evaluating the view of the company's situation presented therein;

- carry out audit activities in relation to the outlook presented by the legal representatives in the Management Report. Drawing on sufficient, suitable audit evidence, we specifically examine the main assumptions on which the legal representatives have based their outlook and make a judgment as to whether the outlook has been correctly derived from the assumptions. We do not give a separate audit opinion on the outlook, or on the assumptions on which it is based. There is a substantial, unavoidable risk that future events will significantly diverge from the outlook.

We discuss, among other things, the proposed extent and scheduling of the audit as well as important audit findings with those responsible for monitoring the process. This includes any flaws in the internal control system which we may have uncovered in the course of our audit."

Düsseldorf, 7 February 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Lösken	Wirths
Auditor	Auditor

Translation of the independent auditor's report issued in German language on the annual financial statements prepared in German language by the Management Board of company. The German language statements are decisive.

Imprint

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