Annual Report 2016

Financial Statements and Management Report

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

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››› DEG at a glance

EUR million	2016	2015
Finance		
Total financial commitments in financial year/new business	1,553	1,064
Portfolio (commitment obligation/own business) at year end	8,633	7,191
Total investments of co-financed enterprises/new business	6,551	5,690
Consultancy and other services		
Income from consultancy contracts, trust business and other services	16	14
Annual financial statements		
Balance sheet total	5,820	5,843
Subscribed capital	750	750
of which paid in	750	750
Reserves	1,518	1,435
Operating result before provision for risk and valuation effects from currency	259	245
Taxes	15	23
Profit for the financial year after taxes	96	78
Withdrawal from purpose-tied reserve fund	4	8
Net income	100	87

Developmental impacts of DEG's portfolio 2016	
Tax paid annually by co-financed enterprises	EUR 280 million
Number of jobs in co-financed enterprises	414,000
Renewables/annual production	1,800 GWh (gigawatt hours)[1)]

[1)] Equivalent to the annual consumption of approx. 5 million people.

››› Report by the Supervisory Board

Advice to and supervision of the Management Board

The 2016 reporting period was characterised by a high level of trust in the cooperation between the Supervisory Board and DEG's Management Board. 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. The Supervisory Board was involved in decisions of major significance for DEG and, following extensive consultation and scrutiny, gave its consent in specific cases where required.

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

Meetings of the Supervisory Board

During the past calendar year, the Supervisory Board held four regular meetings. It was assisted in carrying out its work by the committees appointed from among its members:

The Credit Committee, which had been newly established on 1 January 2015, met five times in its previous form over the course of the year. It was again noted that since its role includes taking the final decision on which of DEG's financing proposals shall be submitted to the Supervisory Board, this committee had significantly enhanced the effectiveness and efficiency of the Supervisory Board's necessary involvement.

With effect from 1 October 2016, the Supervisory Board approved an amendment to the rules of procedure for the Supervisory Board and its committees. In consequence, a Remuneration Control Committee RCC (Vergütungskontrollausschusses VKA) was set up; additionally, the duties of the Risk Committee, which were previously handled by the Audit Committee, were transferred to the Credit Committee, which was renamed the Risk and Credit Committee RLC (Risiko- und Kreditausschuss RKA) as a result. In the course of this reorganisation, the Executive Committee, which had already taken on tasks associated with nominations, was renamed the Executive and Nomination Committee. Accordingly, the Supervisory Board has since that date been assisted in its work by the Audit Committee, the Risk and Credit Committee and the Executive and Nomination Committee. These adjustments take greater account of DEG's voluntary compliance mutatis mutandis with Article 25d of the Banking Act of the Federal Republic of Germany, a development that is welcomed by the Supervisory Board. Against this background, two meetings of the RLC and one meeting of the newly established RCC were held in the further course of 2016.

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 2017, the risk strategy for 2017, the IT strategy for 2017 and financial planning for 2017.

The Supervisory Board expressly welcomes the high developmental impacts of the investments financed by DEG. It would like to pay tribute to the fact that – despite the difficult economic situation internationally – a significantly increased volume of new commitments was achieved compared to the previous year. Not only that: the overall developmental rating achieved for new commitments yet again exceeded the levels envisaged in planning. DEG's externally validated sustainability report, which covers both the sustainability of DEG's business and DEG's operational sustainability, met with an equally favourable reception.

Every year since 2014, the Supervisory Board has carried out a self-evaluation and an evaluation of DEG's Management Board. The Supervisory Board's self-evaluation, based on structured questionnaires, was undertaken in the fourth quarter of 2016. 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 evaluation of DEG's Management Board, also based on structured questionnaires, was carried out at the end of 2016. 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.

Admission of Staff Representatives to the Supervisory Board

On 1 December 2016, after DEG had exceeded the figure of 500 employees within the meaning of the One-Third-Participation Act (Drittelbeteiligungsgesetz DrittelbG), the Management Board announced, by publication of a notice in the Federal Gazette, that in pursuance of Article 4, Section 1 DrittelbG, one third of positions on the Supervisory Board shall be filled with employee representatives. In consultation with the shareholder, the number of members of the Supervisory Board was increased to 15, and five employee representatives were admitted to the Supervisory Board. The new members were selected on 23 January 2017 by those DEG employees who were eligible to vote. The Supervisory Board looks forward to working confidently and constructively in its new composition following enlargement.

Annual financial statements and Management report

KPMG AG Wirtschaftsprüfungsgesellschaft of Düsseldorf has audited 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.

For 2017 and subsequent years, an invitation to bid was issued for both the KfW Group audit and DEG's individual audit. In inviting tenders, DEG is taking account of the EU audit reform which came into force on 17 June 2016. The reform specifies that the auditing company and the auditor responsible should be rotated after ten years at the latest. Accountants Ernst & Young were appointed as auditors in August.

Based on the auditor's report, the Audit Committee appointed by the Supervisory Board reviewed and discussed annual financial statements along with the management report and recommended that they be approved by the members of the Supervisory Board. No objections were raised during a final detailed review by the Supervisory Board. The members of the Supervisory Board 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 2016 and discharge the Management Board from its liabilities.

Changes in membership of the Supervisory Board

The Supervisory Board appointed Parliamentary State Secretary Hans-Joachim Fuchtel (Chairman), Dr Norbert Kloppenburg and Corinna Linner to the newly established Remuneration Control Committee.

Thanks and appreciation

The Supervisory Board would like to express its gratitude and appreciation to the Management Board for its cooperation, which has been open and marked by a high level of trust.

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

Cologne, 20 March 2017

Chairman of the Supervisory Board
Hans-Joachim Fuchtel

››› Corporate Governance Report 2016

As a member of KfW Bankengruppe, DEG – Deutsche Investitions- and 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 (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 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.

DEG's rules of procedure for the Supervisory Board and its committees have been revised for the purpose of setting up a Remuneration Control Committee and reworking the list of tasks assigned to the committees. The new version came into force on 1 October 2016.

Declaration of conformity

The Management Board and Supervisory Board of DEG make the following declaration: "Since the previous Declaration of Conformity on 14 March 2016, 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 corporate insurance, also extend protection to the members of DEG's Management and Supervisory Boards. In a departure from paragraph 3.3.2 PCGC, these only include the option to introduce a deductible during the period under review. A decision on whether to exercise the option will be taken in consultation with the Chairman and the Deputy Chairman of KfW's Board of Supervisory Directors. For 2017 the Management Board has decided to introduce a deductible in the D&O insurance contracts for members of the Management Board in compliance with the requirements of paragraph 3.3.2 PCGC.

Responsibilities

With the agreement of the Supervisory Board and following a decision at 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 alone lays down areas of responsibility in a schedule of responsibilities with the agreement of the shareholder, but – in a departure from paragraph 4.2.2 PCGC – without the additional agreement of the Supervisory Board. This ensures the necessary flexibility, should changes be required, and hence an efficient division of labour.

Remuneration
In a departure from paragraph 4.3.1 PCGC, responsibility for drawing up the remuneration system for members of the Management Board lies with the Shareholders' Meeting rather than the Supervisory Board. This includes setting the level of remuneration and of variable remuneration components as well as dealing with any other remuneration issues.

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. Secondary employment on the part of a member of the Management Board must be approved by the Chairman of the Executive Committee rather than the Supervisory Board. This is at variance with paragraph 4.4.4 PCGC.

Supervisory body
In a departure from paragraph 5.1.2 PCGC, the initial appointment of Christiane Laibach as a member of the Management Board is for a period of five years. This is warranted by the fact that Ms Laibach has several years' experience as Executive Director at KfW IPEX-Bank. The group takes the view that her appointment is therefore in the nature of a follow-up appointment.

Delegation to committees
The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from more familiarity with the issues and greater 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 PCGC paragraph 5.1.8, and for reasons of practicality and efficiency, take the final decision themselves.

In connection with DEG's financing business, the **Risk and Credit Committee** takes the final decision on measures and transactions of particular importance, 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 importance. 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 and any events of significant 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 important changes to the economic climate affecting 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, the areas of responsibility were 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 decision-making, and are subject to a comprehensive non-compete obligation whilst acting for DEG. The 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 the management of DEG.

DEG has a voluntary Supervisory Board. Under DEG's articles of association, the Supervisory Board shall have a minimum of eight and a maximum of twelve members, of whom four shall be representatives of the German Federal Government – one each from the German Federal Ministry for Economic Cooperation and Development, the German Federal Ministry of Finance, the German Federal Foreign Office and the German Federal Ministry of Economic Affairs and Energy – and two shall be representatives of the shareholder. The German Federal Government has the right of proposal in respect of its own representatives. The selection of the other members of the Supervisory Board is carried out in consultation with the German Federal Ministry for Economic Cooperation and Development. The members of the Supervisory Board are appointed by the Shareholders' Meeting. The German Federal Ministry for Economic Cooperation and Development has the right to propose the Chairman or Chairwoman of the Supervisory Board, which it exercises in consultation with the shareholder. In the year under review, the Chairmanship of the Supervisory Board was held by Hans-Joachim Fuchtel, Parliamentary State Secretary under the German Federal Minister for Economic Cooperation and Development. The Supervisory Board had two female members in the year under review.

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, since the conditions of Article 1, Section 1, Clause 3 of the One-Third-Participation Act (DrittelbG) had been met. This requires one third of the Supervisory Board's members to be employees. Since no appeal was made to the competent court as per Article 98 Section 1 of the German Stock Corporation Act (AktG) within the time limit given in Article 97, Section 2, the new Supervisory Board shall be constituted according to the provisions of the One-Third-Participation Act.

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 DEG's Management Board
- Anyone who already 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 businesses
- 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 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, no member of the Supervisory Board attended fewer than half the board meetings in full.

Committees of the Supervisory Board

Up to 30 September 2016 the Supervisory Board had formed three committees, specifically an Executive Committee, a Credit Committee and an Audit Committee.

Since 1 October 2016, to ensure the efficient performance of the board's tasks, there have been four committees with duties in line with the provisions of 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. Where necessary, it prepares for meetings of the Supervisory Board. The responsibilities of the Executive and Nomination Committee include discussing matters to do 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 importance, on whether to initiate legal disputes, to waive debts beyond the scope of settlements and to agree settlements where such legal disputes, waivers or settlements are of special importance.

The **Audit Committee** deals especially with monitoring the financial reporting process; with the effectiveness of the risk management system, especially the internal control systems and the Internal Audit; with auditing 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; in particular for: approving the annual financial statements and the appropriation of the annual result or net income; determining 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 KWG Article 2, Section 4, 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. The Communications Department 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 bank'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, as well as to achieve a suitable level of information security, appropriate operational continuity management, the identification of operational risks and the mapping of an internal control system. Accordingly, it has binding regulations and procedures that influence day-to-day 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 22 March 2016, DEG's shareholder appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2016 financial year. The Supervisory Board subsequently issued the audit mandate to KPMG on 6 June 2016 and established the 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 auditor should inform the Chairman of the Supervisory Board or include a note in the audit if, while carrying out the audit, she ascertained facts that negated the accuracy of the Declaration of Conformity with the PCGC.

Efficiency review of the Supervisory Board

The Supervisory Board regularly reviews the efficiency of its activities. It carries out an annual evaluation of the Supervisory Board and the Management Board for this purpose.

COMPENSATION REPORT

The compensation 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 compensation 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 14 March 2016, 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 business performance has not declined substantially. 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 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 2016.

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 a 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 their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance. Members of DEG's Management Board

Compensation for the Management Board and members of the Supervisory Board

k EUR	2016	2015	Change
Management Board	1,288	1,316	–28
Former members of the Management Board & surviving dependants	880	905	–25
Members of the Supervisory Board	29	28	+1
Total	**2,197**	**2,249**	**-52**

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 carried out 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 payable by the members of the Management Board.

In 2016, 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 continue beyond the attainment of statutory retirement age. After they reach the age of 65 or the 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. If their employment is not extended beforehand, 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.

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.

Annual compensation of members of the Management Board and transfers to pension provision for 2015 and 2016

k EUR[1]		Salary	Variable compensation*	Benefits in kind[2]	Total	Bonus account	Transfer to pension provision
Bruno Wenn (Chairman)	2016	344.9	72.4	14.0	**431.3**	72.7	367.2
	2015	344.9	80.0	14.4	**439.4**	79.2	1,026.6[4]
Dr Michael Bornmann	2016		44.5[3]	0.0	**44.5**	44.5	
	2015	42.2	80.9	7.6	**130.7**	80.5	0.0
Philipp Kreutz	2016	344.9	73.7	11.7	**430.3**	74.1	194.8
	2015	344.9	79.8	12.0	**436.7**	78.8	277.5
Christiane Laibach	2016	344.9	27.1	9.2	**381.3**	27.1	94.3
	2015	300.9	0.0	8.1	**309.0**	0.0	2,096.3[5]
Total	**2016**	**1,034.8**	**217.7**	**34.9**	**1,287.5**	**218.4**	**656.3**
	2015	**1,032.9**	**240.7**	**42.1**	**1,315.7**	**238.5**	**3,400.4**

1) For computational reasons, the table may contain discrepancies due to rounding.
2) In a departure from the figures in the appendix, this table does not include the employer's contribution as per the German Social Security Act. The total for 2016 was EUR 35.7 thou. (previous year EUR 39.5 thou.).
3) Dr Bornmann received variable compensation in respect of his activities as CEO.
4) Includes entitlements from previous employment with KfW transferred in 2015.
5) Includes entitlements from previous employment with KfW IPEX-Bank transferred in 2015.

* In a departure from the figures in the appendix, this table includes variable compensation actually paid out under a provision covering phased payments.

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 pay-off to a member of the Management Board due to early termination of his or her activities as a board member without important cause as per Article 626 of the German Civil Code will accordingly be limited to double the annual salary, or compensation due for the remaining period of his or her contract including fringe benefits, whichever is lower.

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.

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.

In 2015 and 2016, pension payments to former members of the Management Board and their dependants amounted to EUR 904.5 thou. and EUR 879.7 thou. respectively.

A write-back in the amount of EUR -1,015.3 thou. was carried out in respect of pension obligations towards former members of the Management Board and their surviving dependants at the end of the 2016 financial year (previous year: transfer of EUR 905.6 thou.).

No loans were provided to former members of the Management Board or their surviving dependants in the 2016 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 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 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 2015 and 2016 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, members of the Supervisory Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed 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, 20 March 2017

The Management Board The Supervisory Board

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

	Number 2016	k EUR 2016	Number 2015	k EUR 2015
Former members of the Management Board	6	620.0	6	689.9
Dependants	4	259.8	3	214.6
Total	**10**	**879.7**	**9**	**904.5**

Compensation of members of the Supervisory Board for the 2015 and 2016 financial years

EUR

No.	Name	Period of membership 2016	Supervisory Board membership	Committee membership	Daily allowance & attendance fee	Total
1.	Hans-Joachim Fuchtel[1]		-	-	-	**-**
2.	Dr Norbert Kloppenburg[1]	01.01–31.12	-	-	-	**-**
3.	Eberhard Brandes[2]	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**

EUR

No.	Name	Period of membership 2015	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[2]	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	1,500	7,548	**17,048**
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**	**1,500**	**8,572**	**28,072**

1) Remuneration not claimed.
2) Remuneration donated to WWF.

››› Management Report 2016

CORPORATE ESSENTIALS

Business model

DEG – Deutsche Investitions- and Entwicklungsgesellschaft mbH, Cologne (DEG) promotes the private sector in developing and emerging market countries within the context of entrepreneurial development cooperation. Skilled work and an income are essential prerequisites if people's living conditions are to be improved and poverty overcome. This commitment also supports the implementation of the Sustainable Development Goals (SDG) contained in the United Nations' Agenda 2030. Entrepreneurial initiative is a key driver, since the vast majority of jobs are created in the private sector.

That is why DEG finances economically and developmentally sustainable, socially and environmentally sound investment proposals by private sector enterprises with loans, guarantees, loans with equity features and participating interests. It addresses mainly medium-sized businesses ("Mittelstand") and small and medium-sized enterprises (SMEs) with its offerings. DEG's aim is to contribute to its customers' long-term success by providing reliable long-term finance and advice. Only consistently successful enterprises create permanent jobs and generate sustainable developmental impacts.

With their involvement in emerging markets and developing countries, German enterprises make important contributions to development. In doing so, they secure market share in those countries and open up new markets in growth regions. That is why DEG provides financing and advice to medium-sized German enterprises in those countries, offering services tailored to their specific requirements.

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

As a pioneer investor, DEG becomes involved in the "International Development Association" (IDA) and in post-conflict countries in Africa and other regions. It demonstrates that long-term entrepreneurial success is possible even in difficult conditions, sending a signal to investors and businesses. By mobilising additional private-sector capital, it boosts the leverage effect of its commitment.

Sustainable entrepreneurial success is determined not only by economic, but also by ecological and social factors. That is why DEG promotes high, internationally recognised ecological, social and corporate governance standards and advises the enterprises it finances on how to implement them.

As a development institution with a development policy mandate, DEG operates on the subsidiarity principle, providing finance where the market fails to offer financing to enterprises at an adequate level, or at all.

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. They form the foundation that enables DEG to pursue and grow its operations 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.

As one of the leading European development finance institutions, DEG works closely with other development finance providers with the aim of jointly enhancing efficiency, achieving a greater impact and improving visibility. Cooperation with the members of the European Development Finance Institutions (EDFI) is a special priority. The association is specifically committed to extending cooperation within the European Union and further expanding European financing partnerships through a process of standardisation and harmonisation.

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

In 2016, work to further hone DEG's business model was completed. A focussed set of objectives defines three main strategic goals: sustainable earnings, developmentally effective support for the private sector and the provision of financing and advice to medium-sized German enterprises. The business case developed on this basis enables DEG to fulfil its development policy mandate.

In 2016, as in previous years, DEG has relied on continuous communication with relevant stakeholder groups such as non-governmental organisations (NGOs). For instance, it has on several occasions conducted structured dialogues with representatives of civil society and discussed subjects of relevance to development as well as DEG initiatives and commitments with these representatives. In 2016, as DEG and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) further developed their joint complaint mechanism, civic organisations were invited to submit suggestions. Taking the suggestions offered by civil society into account, and in cooperation with an independent panel of international experts, the complaint management guideline has been updated. The new version came into force on 1 January 2017 and has been published on DEG's website under the heading "Responsibility".

Sustainability

DEG's commitments are intended to be environmentally and socially acceptable, which is why cofinanced enterprises enter into a commitment to that effect. Investment proposals 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 assessment. 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. A summary of these may be found on an exclusion list published on DEG's website under the headings "About us/Responsibility/Our standards". Investments in new coal-fired power stations were excluded from DEG financing from April 2015.

For all the proposals to which DEG committed financing in 2016, the enterprises concerned have, as in preceding years, contractually undertaken to comply with national regulations as well as meeting international environmental and social standards.

These include the IFC performance standards (in the most recent version revised after a wide-ranging process which included input from DEG) as environmental, social and human rights standards and the core labour standards set up by the International Labour Organization (ILO).

In 2016, DEG was again able to contribute to improving conditions in co-financed enterprises by agreeing environmental and social action plans where proposals carried 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. For any issues that may arise, solutions are worked out jointly with the enterprises concerned.

In 2016, DEG again supported sustainability initiatives in individual sectors and regions. In connection with the development of renewables to supply electricity in Guatemala, for example, DEG worked with the Guatemalan Association of Renewable Energy Production (AGER) to promote an appreciation of community engagement, corporate social responsibility and a responsible approach to the rights of indigenous groups. The training programme ran for over a year and involved workshops held over several days as well as individual coaching sessions in which members of the association were made aware of the issues and supported in applying what they had learnt in practice.

DEG also acts in an environmentally responsible way in respect of 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 maintaining a climate-neutral rating.

Personnel

At the end of 2016, DEG retained 539 employees in total (2015: 526). Staff numbers broke down into 381 staff outside regular pay scales – of whom 54 are senior executives – and 158 staff on regular pay scales, including 11 apprentices. Of these, 116 were employed part-time (2015: 107). A total of 283 members of staff (52.5%) were female (2015: 53.6%). The average age was 43.6 years (2015: 43.2). The proportion of severely disabled people was 2.5% (2015: 2.3%). A total of 20 members of staff were employed in DEG's representative offices along with 44 local experts.

In 2016, building on the previous year's high level (2015: 29.6%), DEG was again able to increase the proportion of women in leadership roles to 30.8%. Its highly qualified employees are dedicated to fulfilling their tasks and meeting DEG's targets. In doing so, they make a significant contribution to the success of the business. DEG benefits from their diverse academic backgrounds, professional careers and cultural heritage. Knowledge and experience of banking are just as useful as a detailed focus on specific countries or industries and a strong internationalist bent linked to development policy expertise.

To ensure its long-term future viability in staffing matters, DEG operates a competence model informed by its business model and its mandate. This model serves as a common thread running through a range of staff development tools. The talent management system is designed to develop staff potential in line with DEG's strategic needs. Since August 2016, the continuous expansion and exchange of knowledge among staff has been supported by a comprehensive and collaborative knowledge management system.

In the context of the "customer-centred DEG" initiative launched in 2014 and the associated organisational changes, various staff development tools have been updated and the foundation laid for a demand-based, specialist and cross-disciplinary qualification. The 270º executive feedback process carried out in 2016 provided important information about the extent to which the leadership model has been implemented at DEG. The result will contribute to the development of leadership culture in 2017.

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 1.1 million (2015: EUR 1.2 million) in training, in professional development for specialists and senior executives, and in its talent management system.

For junior employees, DEG offers trainee programmes in the fields of financing, risk management & financial controlling and IT. In 2016, two male graduates took up places as trainees at DEG, and two male members of staff started training as cooks. From mid-2017, DEG will offer initial training for bank clerks to ensure it is able to fill future vacancies in the banking analysts segment. There are plans to employ five apprentices.

In 2016, DEG again supported students at both Cologne University and the Cologne University of Applied Sciences with scholarships. 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 every new financial year, DEG enters into a personal goal agreement with each member of staff. The goals specified in the agreement are based on, among other things, DEG's business goals as agreed with KfW, its business strategy and its risk strategy.

The main component of staff remuneration remains a fixed salary consisting of 13 monthly payments for staff outside regular pay scales. They receive variable, performance-related and success-related remuneration provided performance parameters have been achieved by both the business and the staff member. A target bonus serves as a benchmark and is set as an appropriate proportion of annual basic salary. The effective bonus is paid in the subsequent financial year. The maximum possible effective bonus is double the target bonus.

Staff on regular pay scales receive an annual salary equal to 13.5 monthly salaries. In addition, they may receive variable and performance-related compensation. This similarly depends on the success of the business and on employee performance parameters.

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

The summary on page 19 includes the information required under Section 16, Subsection 2, No. 3 of the German Regulation on Compensation by Financial Institutions (InstitutsVergV).

DEG's social benefits include a corporate pension scheme, group accident insurance and the granting of loans to employees for property and major purchases. There are also recuperation allowances, special benefits in case of illness and emergencies, and a childcare allowance. DEG also provides its employees with a free pass for travel on public transport. Additionally, DEG has further expanded its corporate health management system and offers a wide range of preventative health measures as well as providing corporate sports groups.

The Management Board would like to express its gratitude to all members of staff for their commitment during a successful year for DEG; it yet again proved exceptional and highly motivated. With their efforts, they have contributed to DEG's ability to fulfil its development mandate in 2016 as in previous years and to meet its business policy goals. 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.

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 the proportion of women among the managing directors, on both executive levels below managing director, and on the Supervisory Board.

In order to fulfil these statutory obligations, the targets to be achieved by 2021 for the proportion of women in leadership positions on the two management levels as per Article 36 of the Law on Limited Liability Companies 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 2016.

No targets or fulfilment deadlines have yet been set for the Management Board and the Supervisory Board due to the status proceedings that are under way.

ECONOMIC REPORT

Business environment

In 2016, world economic growth was 2.3% (prev. year 2.7%). Economic growth in the industrialised nations was only 1.6% (prev. year 2.1%). This was due to weak development, mainly in the first half, as a result of low oil prices, which led to low levels of investment in the mining and energy sectors; and the strong US dollar, which had an adverse effect on exports and on investment in the manufacturing industry. In the eurozone, the economy grew by just 1.6% (prev. year: 2.0%) as a result of continuing structural problems.

Growth in emerging market and developing countries of 3.4% was just a little lower than in the previous year (3.5%). Within this group, developments were fairly heterogeneous. While regions with countries importing raw materials (East Asia/Pacific, South Asia) generally continued to display good growth figures, the economy continued to weaken in regions with predominantly countries exporting raw materials (Latin America, Sub-Saharan Africa).

For instance, the East Asia/Pacific region recorded 6.3% growth in 2016, a shade lower than the previous year, but still high compared to the rest of the world. Slower economic growth in China was offset by the good development in other countries. South Asia benefited from robust domestic demand, low oil prices and low inflation, and hence achieved 6.8% growth.

In Latin America, the economy declined with –1.4%. The cause was the continuing difficult economic situation in Brazil and

Remuneration 2016

	Number of employees (number of recipients of variable remuneration)	Total fixed salaries (gross) in EUR million	2016 management bonus (for performance in 2015) in EUR million	2016 bonus (for performance in 2015) in EUR million
Staff on regular pay scale	178[1] (136 recipients)	7.5	-	0.5[2]
Staff outside regular pay scale	377[1] (356 recipients)	31.3	4.2	-
Management Board	3 (4 recipients)	1.0[3]	0.2[3]	-

[1] The number of employees comprises all persons active in 2016, including any who left over the course of the year. Recipients takes into account all members of staff who received variable remuneration in 2016 due to having achieved their agreed performance targets.

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

[3] The management bonus includes a portion arising from the activities of a former member of the Management Board.

Argentina. This is due mainly to the low price of raw materials and weakening demand in China for agricultural products and raw materials.

At 1.5%, the level of growth in Sub-Saharan Africa dropped below that of the world economy for the first time since 2000. The sluggish economic momentum was mainly the result of developments in Nigeria and South Africa. Together, these two countries contribute in excess of 50% of the African continent's economic output. The reason for the drop in economic output was the low price of oil and raw materials and a failure to reform.

Europe and Central Asia recorded economic growth of 1.2% in 2016. This improvement over the previous year is the result of the recovery in Iran after some sanctions were lifted. Following the Russian economy's severe recession in 2015 with a drop in growth of –3.7%, the economy only contracted by –0.6% in 2016.

In the major emerging market countries (Brazil, Russia, India, China, South Africa) the potential for growth was and is adversely affected by sometimes defective infrastructure, by low levels of economic diversification, and by dependence on raw materials or exports at a time of low prices for raw materials and a lack of reform. In many emerging market and developing countries, the economy additionally suffers from (in some cases substantially rising) debt in both the private and public sectors, from the weaker international goods trade and from credit terms, which are restrictive in many places.

In keeping with its mandate as a development finance provider, DEG acts at a complementary level wherever the market fails to provide private sector enterprises with the required long-term financing altogether, or at adequate levels. In 2016 as in previous years, this remained the case in its partner countries.

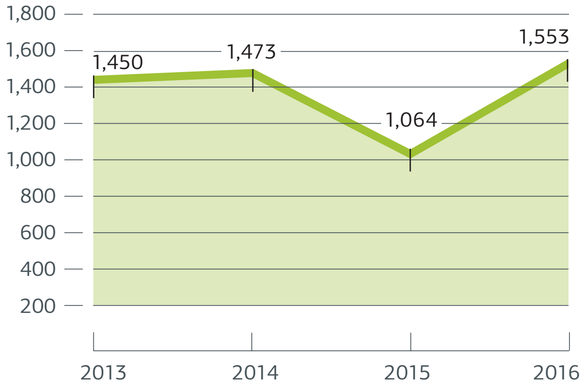
Business development

There was considerable demand for DEG's offerings in financing and advisory services in 2016. With EUR 1,553.4 million, DEG was able to expand its business substantially compared to the previous year. It also achieved the highest figure to date for new commitments (2015: EUR 1,063.9 million). The target volume of EUR 1,600 million was almost achieved.

[1] Sources: World Economic Prospects, World Bank, January 2017; World Economic Outlook, IMF, October 2016; KfW Capital markets report 2016.

Development of annual financial commitments

EUR million



In the year under review, DEG committed financing for 94 investment proposals in total (2015: 75 proposals). These commitments, a key performance indicator, enabled entrepreneurial investments with an overall volume of EUR 6,550.7 million (2015: EUR 5,690.4 million).

The volume of commitment (total of commitments paid out and new commitments on own account approved but not yet paid out) is another of DEG's key performance indicators. As expected, it rose in 2016 from EUR 7,191.1 million to EUR 7,731.0 million – spread across 674 commitments in 79 partner countries – and displayed a generally stable risk structure. At EUR 1,042.9 million, disbursements (own business) in 2016 fell slightly below the previous year's figure of EUR 1,331.3 million.

The proportion of newly committed financing for small and medium-sized enterprises (SMEs) and medium-sized businesses ("Mittelstand") came to an encouraging EUR 870.6 million in 2016 (2015: EUR 631.7 million). New commitments for Africa and other future markets again increased, reaching EUR 614.8 million (2015: EUR 565.8 million).

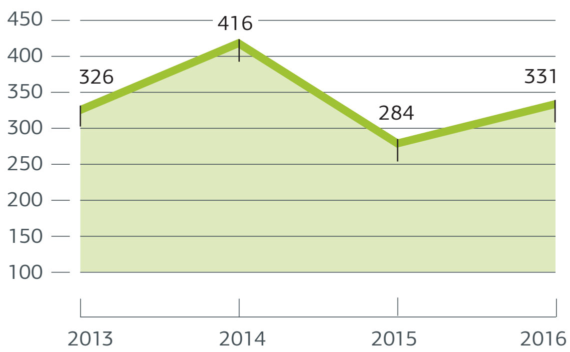
Commitments for risk capital financing – equity participations and loans with equity features – amounted to EUR 470.0 million in 2016 (2015: EUR 378.7 million).

In total, EUR 561.9 million of new commitments 2016 were for proposals designed to protect the climate and the environment, or support adaptation to climate change (2015: EUR 326.6 million). The new commitments for investments in climate protection came to EUR 439.0 million (2015: EUR 194.9 million). In 2016 demand again increased, especially in Africa and Latin America, for DEG to act as a financing partner in the renewables field. This was complemented by targeted investments in funds and in the "Interact Climate Change Facility" (ICCF), which focus on spreading clean energy generation.

In 2016, DEG reached more than 110 German enterprises with its financing and promotional programmes. It made EUR 252.5 million in equity finance available for proposals in emerging market and developing countries (2015: EUR 137.7 million). DEG provided a further EUR 15.7 million to German enterprises via promotional programmes (2015: EUR 26.0 million). In 2016, fewer such enterprises applied for development funding than in the previous year, while interest from European enterprises increased.

Following the definition of customer clusters in the course of the "customer-centred DEG" initiative, the new commitments for 2016 broke down as follows: enterprises (corporates) received the lion's share of financing commitments with EUR 578.8 million (2015: EUR 286.6 million). EUR 433.1 million went to financial institutions (2015: EUR 403.7 million), and EUR 310.1 million to funds (2015: EUR 193.5 million). EUR 231.4 million was made available for project financing in 2016 (2015: EUR 180.1 million).

New financial commitments for investments in Africa
EUR million



Financing commitments for 2016 were spread across 44 countries (2015: 33 countries). By continent, most financing again went to Asia, where, commitments amounted to EUR 511.6 million (2015: EUR 373.7 million). This was closely followed by Latin America with EUR 506.7 million – an increase of over 60% compared to the previous year (EUR 310.4 million). Commitments for investments in Africa also developed favourably, reaching EUR 331.3 million (2015: EUR 283.7 million).

With EUR 107.5 million in total, commitments for Europe also recorded a significant rise of over 40% (2015: EUR 74.9 million). Of these, EUR 52.8 million went to Eastern and south-eastern Europe (2015: EUR 9.1 million). Financing commitments for supra-regional proposals increased to EUR 96.3 million (2015: EUR 21.2 million).

Of the new commitments, lendings accounted for EUR 1,115.4 million (2015: EUR 806.9 million), of which EUR 32.0 million was arranged as loans with equity features (2015: EUR 121.7 million). Newly committed lendings in USD equated to EUR 1,148.2 million (2015: EUR 650.4 million). EUR 438.0 million of new commitments were for equity participations (2015: EUR 257.0 million).

Development programmes and advisory services

With its promotional programmes, DEG supports mainly German and European enterprises with their commitments in developing countries.

In 2016, a total of approx. EUR 30.2 million was available for the promotional programmes carried out by DEG (2015: EUR 29.7 million). New commitments were made for 180 projects (2015: 170), of which 93 involved German enterprises.

In 2016, a total of EUR 21.7 million was made available 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" (SEWOH), to feasibility studies, Business Support Services, "Up-Scaling", "German Desks" and the Agency for Business and Economic Development (AWE). Usually funding of up to 50% of costs is provided, with a maximum of EUR 200,000.

develoPPP.de enables European enterprises to carry out measures that have an impact on development. These include pilot programmes, qualification, the development of innovative products and services, or improvements to the water or energy supply. In 2016, the sum of EUR 15.2 million (2015: EUR 14.7 million) was available for new commitments and current projects. A total of 58 develoPPP.de projects (2015: 67) were approved in the year under review. Three were designated as strategic projects with especially broad-based developmental impacts – mainly in the fields of supplier qualification and staff training.

The special initiative "develoPPP.One World, No Hunger" is intended to improve economic, social and ecological development in agriculture, mainly in Africa. DEG has received EUR 4.5 million in funds from BMZ for the period from 2014 to 2019. In 2016, DEG approved five projects (2015: four projects). To assist businesses with the planning and preparation of specific investment proposals, DEG draws on BMZ funds to co-finance feasibility studies. In 2016, BMZ made EUR 2.3 million available for the purpose (2015: EUR 1.8 million). 17 feasibility studies were approved (2015: 12).

The "Business Support Services" programme offers tailor-made advisory solutions for customers. The aim is to improve a business's bankability and performance, to reduce financing risks and boost the developmental impacts. The BSS advice services are an integral part of DEG's product range. In 2016, approval for Business Support Services was given in 85 cases (2015: 73). Overall, EUR 5 million was allocated for the purpose (2015: EUR 4.9 million), of which EUR 2.6 million (2015: EUR 1.8 million) came from BMZ funds and EUR 2.4 million from DEG funds (2015: EUR 3.1 million).

The programme "Climate Partnerships with the Private Sector", operated on behalf of the German Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMUB), aims to develop climate-friendly technologies in emerging market and developing countries. In 2016, BMUB funds in the amount of EUR 0.9 million were allocated for the purpose (2015: EUR 0.75 million). By 31 December 2016, commitments had been made for nine projects in Brazil, India, Columbia, Peru, Rwanda, South Africa, Tanzania, Tonga and Turkey.

The "Up-Scaling" programme funded by DEG and BMZ supports pioneer investments in emerging market and developing countries by SMEs that wish to expand an innovative business model. The "Up-Scaling" programme makes up to 50% of the total investment volume available (EUR 500,000 max.) provided the customers contribute at least 25% of the financing. The "Up-Scaling" contribution must be repaid if the financing is successful. In 2016, financing was committed for six schemes and EUR 3.4 million disbursed. Of this, EUR 1.3 million came from BMZ funds (2015: EUR 0) and EUR 2.1 million from DEG funds (2015: EUR 3.2 million).

The "Competitive African Cotton Initiative Phase II" (COMPACI II) set up to improve the income levels for African cotton farmers has been running since 2013. Its implementation was entrusted to DEG and Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation, GIZ) by the Bill & Melinda Gates Foundation and BMZ. Its overall volume amounts to EUR 53.8 million. In 2016, DEG allocated EUR 2.0 million for the project (2015: EUR 1.9 million). Over its lifetime, the initiative will benefit some 733,800 smallholders in twelve African countries.

The Bill & Melinda Gates Foundation also instructed DEG to undertake stewardship of the "Coffee Partnership for Tanzania" (CPT), which has a project volume of EUR 22.5 million and is addressed to 90,000 coffee farmers. In 2016, DEG allocated funds in the amount of EUR 1.1 million (2015: EUR 1.6 million). German enterprises are making a noteworthy contribution to the implementation of both programmes.

Cooperation with other development finance providers

DEG relies on international networks. It works very closely with the members of the European Development Finance Institutions (EDFI), an organisation of development finance providers for the private sector co-founded by DEG. In 2016, EDFI set up its own management company with a view to attracting funds from the EU. Cooperation with its EDFI partners enables DEG to increase its presence in the markets and offer its customers additional financing while sharing the risks.

Since 2003, the co-financing vehicle "European Financing Partners" (EFP), which is operated by the European Investment Bank (EIB), by DEG and by twelve other EDFI members, has supported private investments in countries in the African, Caribbean and Pacific regions (ACP). Eleven EDFI members, EIB and Agence Française de Développement (AFD) are also partners in the "Interact Climate Change Facility" (ICCF), founded in 2011 and designed to finance private sector proposals with a beneficial effect on the climate.

Since they were set up, EFP and ICCF have jointly made funding for private sector investments of just under EUR 2 billion available (approx. EUR 0.8 billion for ICCF and approx. EUR 1.2 billion for EFP). In 2016, DEG committed EUR 40.0 million to the EFP facility and EUR 50.0 million to ICCF funds. In the context of their close cooperation, DEG, Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of the Netherlands and the Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) of France entered into 22 commitments with a total volume of EUR 860.2 million in 2016 (2015: EUR 930.7 million). DEG's share of the financing was EUR 274.1 million (2015: EUR 398.7 million).

In addition, DEG also regularly cooperates with the other EDFI members, with multilateral development banks – especially IFC and EBRD – and with regional financing institutions.

Developmental impact

In order to evaluate the quality and impact of its commitments in relation to both business and development policy, DEG uses its Corporate Policy Project Rating (Geschäftspolitische Projektrating GPR), a key performance indicator, to carry out both ex ante and ex post analyses. The evaluation of financing newly committed for 2016 showed that the high developmental quality achieved in the previous year was maintained, with an average rating of 2.2 (2015: 2.1). This was in line with DEG planning.

With their tax payments, the enterprises co-financed in 2016 contribute approx. EUR 280 million annually to government revenues in partner countries (2015: EUR 138 million). This revenue can be used for important public investments as per the UN's Agenda 2030 for Sustainable Development.

Some 414,000 jobs have been created or safeguarded as a result of the investments co-financed by DEG in 2016 (2015: 235,000). Jobs created by the private sector that comply with key labour and social standards make a significant contribution to achieving the UN's sustainable development goal of "Decent Work and Economic Growth" (SDG 8).

Financing provided by DEG has also enabled the generation of 1,800 GWh of green electricity annually (2015: 1,015 GWh), enough to supply more than 5 million people (2015: 2.2 million).

Moreover, many of the co-financed enterprises accept greater corporate social responsibility. For example, they pay above-average wages, offer pension or health insurance benefits and operate health centres, nurseries and schools.

Based on its many years of experience with GPR, and taking into account the UN's Agenda 2030 for Sustainable Development, DEG upgraded its development policy rating system in 2016. As of 1 January 2017, GPR will be replaced by a new rating and control instrument called "Development Effectiveness Rating" (DERa)©, which builds on the earlier system.

STATUS REPORT

Profitability

DEG again achieved a good operating result in 2016. Contributory factors included the interest surplus and the result from participating interests. However, due to the sometimes difficult economic situation in some important partner countries, risk provisions had to be further increased as planned. The profit for the financial year before and after tax has improved compared to the previous year.

In 2016, the interest surplus of EUR 220.8 million again made a significant contribution to the good operating result (2015: EUR 230.8 million). It was slightly below the previous year's figure. The further appreciation of the USD led to higher income from interest and higher interest charges. In income from interest this effect was offset by the comparatively low level of new business in 2015, which is reflected in a lower portfolio in 2016.

The write-back of a non-performing loan commitment resulted in interest income relating to other periods of EUR 6.7 million in 2016. More interest rate hedging transactions were terminated in 2016, since a further interest rate rise in the EUR capital markets is to be expected, where rates have already risen. This resulted in earnings of EUR 6.2 million.

The result from participating interests rose by EUR 10.4 million to EUR 125.8 million (2015: EUR 115.4 million).

Of the income from disbursements of EUR 90.6 million, 74.1% related to direct investments and 25.9% to funds. Income from disbursements rose by EUR 6.3 million due to the effect of three major transactions.

Income from dividends also showed an encouraging rise to EUR 35.2 million. The high dividends paid by two participating interests were the main reason for the rise.

Other operating income of EUR 26.5 million exceeded the previous year's figure of EUR 18.7 million. This is largely due to the income from the sale of a conversion right in connection with loan financing in the amount of EUR 5.9 million.

Staff costs in the 2016 financial year dropped by EUR 8.6 million. This was mainly as a result of the statutory adjustment of actuarial interest for transfers to pension provision. The difference between the new average market rate over ten years and the previous approach with an average market rate across the previous seven years was EUR 11.6 million.

To account for the risks arising from the continuing difficult economic climate, the net transfer to risk provision in the year under review was EUR 136.8 million (2015: EUR 127.9 million). Some 61% of the net transfer was allotted to loans and 39% to participating interest. The transfers in the participating interests business were largely due to the (in some cases) very adverse developments in commitments in Latin America and Africa. Local currency devaluations have also adversely affected the development of individual banks in Eastern Europe. Moreover, a fall in earnings expectations, downward trends in the capital markets and delays in business developments in some individual commitments also resulted in risk provision.

In the loans business, there was a largely sustained downturn in earnings development and earnings expectation for companies dependent on foreign currency and raw materials. This was due to currency collapses, foreign exchange controls and price erosion. For the first time ever, a transfer to risk provision was made as a result. Delays in meeting construction deadlines also led to occasionally considerable cost overruns and reduced earnings expectations for financed investments in the infrastructure segment. Furthermore, for some commitments that were already non-performing, risk provision had to be increased, sometimes significantly, due to continuing unfavourable economic developments.

The volatility of many currencies again led to higher income and charges being realised from foreign currency. Valuation effects from currency includes transfers to provision for contingent losses in respect of the valuation unit in USD. DEG only includes the book values in the valuation unit. In relation to USD currency control, DEG has decided not to account for future interest payments in the valuation unit. The valuation unit in USD was rendered ineffective as a result. Provision for contingent losses was made in this respect.

German accounting standards P&L – economic presentation

EUR million	2016	2015
Income from lendings	255.6	254.1
Other interest and similar income	8.4	4.0
of which income from interest rate hedging	6.2	3.5
Interest payable and similar charges	–43.3	–27.3
Interest surplus	**220.8**	**230.8**
Income from disposals[1]	90.6	84.3
Income from dividends[2]	35.2	31.1
Result from participating interests	**125.8**	**115.4**
Remaining other operating income[3]	**26.5**	**18.7**
Staff costs	–56.7	–65.3
Non-staff costs[4]	–57.2	–54.8
Administrative costs	**–113.9**	**–120.1**
Operating result before provision for risk and valuation effects from currency	**259.2**	**244.8**
Net provision for risk write-up (+)/write-back (–)	–136.8	–127.9
Valuation effects from currency[5]	–11.1	–15.6
Profit for financial year before tax	**111.3**	**101.3**
Taxes	–15.0	–22.9
Transfer/withdrawal from purpose-tied reserve fund	3.5	8.1
Net income	**99.8**	**86.5**

[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 “Other operating income” without income from the disposal of participating interests and without valuation effects from currency.
[4] Itemised in P&L as “Other operating charges” and depreciation for impairment of tangible and intangible assets, without valuation effects from currency.
[5] Income from foreign currency (EUR 46.0 million) and foreign currency charges (EUR 57.1 million) are defined as valuation effects from currency.

Financial position

In the past financial year, cash inflows from loan repayments (EUR 858.3 million), disposals of participating interests (EUR 218.8 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 1,042.9. The debt capital was repatriated.

The debt capital was raised exclusively from KfW in the form of borrowers’ notes and overnight loans. In 2016, EUR 1,898.7 million in funds was raised in total and EUR 2,042.1 million repaid. Debt capital is raised based on a refinancing agreement with KfW.

Under this refinancing agreement, KfW provides DEG with refinancing funds in USD, EUR, GBP and CHF with a term of more than one year 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 2016.

Net worth position

Taking into account the effects from currency conversion, accruals to investments in partner countries in 2016 amounted to EUR 1,498.1 million (of which EUR 346.8 million was accounted for by foreign currency effects). Disposals came to EUR 1,412.3 million (of which EUR 240.6 million was due to foreign currency effects). The investments in partner countries at original cost rose by EUR 85.9 million to EUR 5,984.9 million.

Participating interests at original cost rose by EUR 119.8 million to EUR 1,581.7 million.

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

The drop in other amounts owed and assets was due mainly to the lower balancing item for accountancy purposes from foreign currency valuation for the valuation units; this arises from the use of the gross hedge presentation method and from hedging with off-balance sheet foreign currency transactions. Other amounts owed include the balancing item for accountancy purposes for the macro valuation unit in USD; other assets include the balancing items for accountancy purposes for the micro valuation units in other foreign currencies.

Taking into account the net profit for the financial year of EUR 99.8 million and the withdrawal of EUR 3.5 million from the purpose-tied reserve fund for Business Support Services, equity increased by EUR 96.3 million in total to EUR 2,367.9 million.

Business volume (balance sheet total without trust business) remained at approximately the same level as the previous year at EUR 5,774.4 million.

The equity radio (ratio of equity to business volume) rose slightly from 39.2% to 41.0%. The pre-tax return on equity (ratio of annual net profit before tax to average equity), a key performance indicator, was 4.8% in 2016, which puts it in the satisfactory range. As expected, this results in a good three-year average for 2014–2016 of 6.2%.

INTERNAL CONTROL SYSTEM (ICS)

DEG defines its internal control system as all the corporate principles, processes and measures 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, and
- Protection of the assets and substance of its financial and net worth positions

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 meeting market standards. Accordingly, the ICS approach takes in five components: control environment, risk assessment, control activities, information/communication and monitoring/inspection. Against this background, and taking its cue from KfW's ICS framework, DEG has formulated its own guidelines, which describe the aims, structure and principles of ICS. These principles establish 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 ownership of the process.

The main component of the ICS is the internal monitoring and management system. The internal monitoring system is based on the written organisational rules (Schriftlich Fixierte Ordnung SFO). These take the form of central specifications and are designed to establish the framework for a proper business organisation and ensure compliance by means of regular updates. They form the basis for process-integrated monitoring. This is used to identify any risks inherent in the operational processes and define as well as implement checkpoints via which risk migration can be carried out. The system is supplemented by monitoring functions that run side by side with the processes within the context of additional risk analyses. These serve to monitor the propriety of business operation, specifically MaRisk compliance as per MaRisk Section 4.4.2, and include money laundering and fraud prevention, compliance with financial sanctions and protection from financing of terrorism, data protection, information security, business continuity management and monitoring of operational risks.

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

The statement on the effectiveness of DEG's internal control system is based partly on an assessment of whether the ICS has been suitably designed. This is carried out as part of the checks performed during the Internal Audit. It is supplemented by a review of whether the controls are being correctly applied and carried out (ICS testing). Again, this falls within the remit of the Internal Audit. The results are reported to the Supervisory Board once a year. This report completes existing risk reporting. During the function and effectiveness review for 2016, 134 key controls for risk classes II to IV (processes carrying medium risk and high risk, respectively) were subject to testing. Based on this test, which was supplemented by rule verification in relation to the suitability of its design, DEG's ICS was judged to be fundamentally effective.

OUTLOOK

Given the volatile, challenging environment, world economic growth in 2017 is expected to increase slightly to 2.7% compared to the previous year (2016: 2.3%). The contribution from the industrialised nations, which are forecast to grow by 1.8% in 2017, will not match that of the emerging market and developing countries. They are expected to achieve 4.2% growth. The recession phase in Russia and Brazil is expected to come to an end. There is also the prospect that a slight increase in the price of raw materials will have a positive effect on economic development, and that China will continue to display moderate growth. However, despite a recovery in the price of raw materials, some countries strongly dependent on raw materials are at risk of being further downgraded by the ratings agencies.

From a regional point of view, Asia in particular is showing signs of economic strength. East Asia and the Pacific region are expected to grow by 6.2% in 2017. In India, the very dynamic development is set to continue with growth of 7.6%. Nevertheless, in the long run, India will not be able to compensate for the impact slower Chinese growth is having on the world economy.

After two years of decline, the Latin American economy is set to return to growth in 2017. But the region's recovery will be slow. Following two years of deep recession, Brazil's economy has probably bottomed out. A slight upturn of real GDP growth is thought likely for 2017. Inflation is gradually falling, which takes the pressure off real incomes. The exception is Mexico. While a recession is not thought likely, the drop in the peso will stoke inflation and lead to a rise in interest rates. Overall, the region's economy will grow by approx. 1.2% in 2017.

Based on a step-by-step recovery of the large economies in sub-Saharan Africa thanks to a slight rise in the price of raw materials, the region's economic situation is expected to improve in 2017 with growth of 2.9%. Nevertheless, there are considerable downside risks, e.g. the weaker economies of key trading partners such as the EU, a delay in making adjustments to take account of worsening real exchange rates, and risks affecting the climate, politics and security.

For the region Europe and central Asia, 2.4% growth is expected. Russia is thought likely to find its way out of recession. In Turkey, by contrast, the economic outlook has deteriorated following the attempted coup and subsequent political counter-measures. This is likely to have a dampening effect on growth in 2017.

With regard to the group of industrialised nations, the high and growing levels of government debt and bank debt as well as high private sector indebtedness in many emerging market countries represent continuing downward pressures on the world economy. In addition, the low interest rate environment that has persisted in industrialised nations for many years is creating financial market risks. Then there are the continuing geopolitical tensions and the increasing significance of political risks to the world economy. There is likely to be some delay before the repercussions of Brexit and the policies of the newly elected US President Trump are felt. Against the backdrop of the change in US interest rate policy and increased debt levels in emerging market and developing countries, the rise in the cost of refinancing represents a risk for many of those countries.[2]

Corporate forecast

Given the dynamic and disparate developments in its target markets, DEG expects to be operating in a challenging environment in 2017 as in earlier years – an environment, however, that will also offer business potential in new and existing markets. DEG has sharpened up its business model, and in that context, its strategic planning is, for the first time ever, based on a target portfolio from which guidelines for each year's new business can be derived. To achieve the target portfolio for 2020 of EUR 8.6 billion, an average annual volume of new commitments of EUR 1.7 billion is required. The guideline for new business in 2017 specifies EUR 1.6 billion. In addition, DEG is planning use its financing to mobilise additional funds of EUR 300 million from other finance providers such as EDFI.

The applications for financing received by the end of 2016, which reached EUR 1.3 billion in total, suggest that demand from businesses for DEG's services will continue in 2017.

It should also prove possible in 2017 to maintain the good developmental quality of the proposals co-financed by DEG.

The volume of commitment is a key performance indicator (KPI) for DEG's business operations. The 2017 targets provide for the volume to grow by approx. 3%.

DEG expects the earnings trend to be favourable in 2017. The main sources will again be notably 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 newly created jobs and DEG's additional costs for measures occasioned by KfW coming into compliance with the German Banking Act (KWG).

Under current plans, and based on standard risk costs, net risk provision in the 2017, financial year will increase to EUR 159 million. The profit for the financial year after tax is expected to be approx. EUR 88 million.

DEG's financial success is largely determined by the risk provision it is required to make and from the volatile income from participating interests, which is dependent on external market conditions. For 2017, DEG expects a pre-tax return on equity of 4.0%, resulting in a three-year average of 4.5%.

Having continued to expand the financing and consultancy services it offers, DEG is in a position to provide a range of solutions that meet the demand of its customers, even when these may vary, also by region. For example, it plays an important role as a provider of long-term loans and, increasingly,

[2] Sources: Global Economic Prospects, World Bank, January 2017; World Economic Outlook, IMF, October 2016; KFW Capital markets report, October 2016.

risk capital in IDA/(post-) conflict countries. This serves the joint purposes of sending a signal and helping to mobilise other funds. DEG also sees additional business potential in the financial institution and funds customer segments.

Promotional and advisory programmes such as the “Business Support Services” are closely integrated with DEG’s financing, and help customers to further improve performance, both in respect of their business and in relation to environmental and governance aspects. Additional developmental impacts can be achieved as a result.

OPPORTUNITY AND RISK REPORT

Opportunity management

Against the backdrop of the global sustainability agenda 2030 agreed by the United Nations in 2015, promotion of the private sector is gaining in importance in national and international development cooperation. At the same time, there is increasing demand from private sector enterprises for services that go beyond financing and include solutions to environmental, governance and social issues. As a private sector development finance institution, DEG takes advantage of the opportunities this provides. It does so within the context of the regulatory requirements, and with a range of services geared to individual customer segments, as established by its initiative to increase customer centricity.

Based on the assessments as per its forecast, and looking at the 2017 financial year and especially the medium term, DEG sees opportunities mainly in loans and risk capital financing in IDA and post-conflict countries.

In the latter countries in particular, there are opportunities to achieve good risk premiums with strong enterprises in a higher risk environment, on the one hand, and also permanently to open up markets attractive to DEG. In the “beyond BRICS” countries (emerging market countries with access to international capital markets and developed financial markets) opportunities still exist in the fields of infrastructure and new technologies, in health and in agricultural commodities processing. But DEG also sees considerable investment potential with a high developmental impact and a good risk/return profile in other sectors. The opportunities in these markets compensate for the continuing downward business trend in the classic emerging market countries (BRICS).

Furthermore, DEG’s business model is especially suited to operating in these target markets. If it is successful in applying its market entry strategies there, DEG will benefit from good opportunities in terms of both volume and margins, matched by high levels of developmental impact. In these markets, DEG fulfils an important role as a pioneer investor. This includes in-depth advice, communicating of the international standards that pertain in the financing business and mobilising of additional capital. Overall, and despite the volatile development in the markets, the higher increase in growth compared to the industrialised nations predicted in the majority of forecasts is beneficial for DEG.

DEG’s front office departments are constantly identifying and analysing suitable opportunities, which are taken up after coordinating with the Management Board and the relevant bodies. Long-term opportunities are additionally worked up jointly with the Corporate Development Division and included in DEG’s annual strategy review process. The priority is to increase sustainable returns on the economic capital deployed and to maintain and expand DEG’s risk-bearing capacity in order to fulfil its development policy mandate over the long term.

The rigorous move from management based on new business to portfolio-oriented risk-return management is intended to ensure that risk is recognised at an early stage. DEG specifically sees further potential for follow-up business with existing customers.

The range of services for German enterprises is being expanded beyond the financing and support services provided to date. The aim is to improve local access to financing for German customers and their business partners and to mobilise more private sector funding from Germany. German business approaches are being widely enshrined across all customer clusters. In a pilot phase, and working with foreign chambers of commerce, three “German Desks” are being set up at selected banking partners of DEG. These will operate as points of contact for German business. This is DEG’s way of meeting the increased demand from German enterprises for suitable financing in developing countries.

Financing in the Enterprises and Project Financing customer clusters displays a good risk/return profile given successful partners in difficult markets, and good co-financing potential with funds in the field of risk capital. They achieve high developmental impacts in relation to jobs, local value creation and climate/environmental effects,

The Financial Institutions and Funds customer clusters are typically characterised by efficient, scalable business. They are important bridgeheads in new, largely undeveloped markets and represent the main way of reaching local SMEs and medium-sized businesses (“Mittelstand”), which in turn are important in terms of development.

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

Risk management

Overall responsibility for risk management rests with the Management Board. It agrees DEG's business and risk strategy, taking into account the requirements of the group and the processes to be used to measure, control and monitor risk. On the recommendation of the Supervisory Board, the Shareholders' Meeting decides the business strategy and, based on that, the risk strategy.

The Supervisory Board advises and monitors DEG's Management Board in its running of the business. In this, it is supported by its committees, specifically the Risk and Credit Committee (which deals with risk issues and approving credit applications), the Executive and Nomination Committee (personnel issues and questions of principle), the Remuneration Control Committee (remuneration issues) and the Audit Committee (which deals with accounting issues, finances and risk management). In this connection, measures and transactions of particular 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 informed via monthly reports.

In the year under review, DEG's Internal Audit scrutinised, among other things, the processes and methods of its risk management system. The priorities were risk-bearing capacity, risk management and risk control processes, business and risk strategy including outsourcing strategy, reputation risk, outsourcing and capital & success planning. Various reviews linked to projects were also carried out. Any 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 paves the way for the Management Board to make those decisions. The RMC discusses matters relating to the measurement, reporting and management of credit, market price, liquidity, operational and other risks. The RMC is additionally responsible for overarching issues such as risk culture, risk inventory, risk strategy, risk-bearing capacity, stress testing and the introduction and/or evaluation of new products.

The Credit and Equity Risk Committee (CERC) is the main committee dealing with management of DEG's credit risk (from loans and participating interests). The CERC advises the front and back office departments, which are responsible for new business and inventory management. It also advises the Management Board and provides recommendations on any actions that might be taken in respect of matters affecting credit risk. The continuous development and improvement of credit risk processes contributes materially 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 coordination 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 throughout the group, it voluntarily complies with the standards of the Bank Supervision Act, in particular the Minimum Requirements for Risk Management (MaRisk) mutatis mutandis. Now that KfW has come under the German Banking Act, DEG may have to comply with additional requirements relating to group-wide risk management.

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 are applied specifically in the front office Market and Trading divisions. In the context of their business operations, they not only bear primary responsibility for risk and earnings, they are also responsible 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. Responsible entrepreneurial action is based on complying with rules and laws. Compliance management ensures risk transparency and helps to prevent such criminal activities as money laundering, the financing of terrorism, fraud, corruption or insider trading. At the same time, compliance with data protection rules and information security is monitored along with the prevention of operational risks and the observance of financial sanctions. The MaRisk compliance function identifies compliance risks that might result in a threat to DEG's assets, and rates the associated implementation of appropriate and effective measures. In the context of process-integrated monitoring within ICS, compliance with the central requirements for a proper business organisation is safeguarded along with the identification of process-inherent risks and the implementation of previously established controls to mitigate risk (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. Given DEG's business model, credit risks are top of the list.

As part of DEG's strategy process, risk strategy is defined in line with the key risks resulting from its business strategy. The risk strategy includes managing the risks associated with key business activities and lists measures to achieve each risk target. It includes statements on risk appetite and risk-bearing capacity, taking risk and earnings concentrations into account, and establishes general conditions for operational risk management. The risk strategy highlights the planned long-term approach by which defined risk targets are to be met.

The aim of the risk strategy is to limit 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. The risk-bearing capacity is assessed over a period of several years, which 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 previously implemented management processes and instruments. Monitoring is performed monthly, mainly 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 based on 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 laid down and must be observed. These apply both in target date view as well as over the period of several years that applies 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 reserves, taking deductible items into account. DEG takes the (as yet) unapproved quarterly result or the profit for the financial years respectively into consideration in risk coverage. Economic risk coverage comprises all 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 (VaR). VaR methods are based on a variance/co-variance approach. 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. For liquid currencies, the methods assume a holding period of two months (maximum time to close out the positions) for interest rate and foreign currency risks, and a solvency level of 99.96%. For illiquid currencies a holding period for interest rate and currency risks of one year is assumed.

For operational risks, individual types of earnings 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.

The calculation of regulatory equity capital requirements using the standard approaches as per the CRR takes into account credit risk, foreign currency risk and operational risk. Despite increased foreign currency risks, there has been no overall change in DEG's risk situation and risk-bearing capacity compared to 2015.

Stress tests

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

The stress tests cover several risk types, 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 test scenarios, DEG draws on the results of its measurement of risk concentrations and of its early warning system. In 2016, DEG chose the scenarios “Oil crisis – sustained low oil price” and “Crisis in Turkey” as event-related stress tests when it performed its calculations. In both scenarios, DEG was able to show a good level of risk-bearing capacity.

DEG 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 every quarter. 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 2016 and at all times throughout the year.

Types of risk

The following distinct risk types are rated as significant for DEG’s business operations 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 credit risk classes of its commitments – unsurprisingly displays a concentration of medium and high default risks. For country risk classes (in relation to conversion and transfer risks), most financing provided by DEG displays a good to medium default risk.

As the breakdown of the volume of commitment by region and by industries 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 financing for financial institutions (proportion of banks and insurance companies: 33.7%; proportion of funds: 18.2%) and enterprises in the energy sector. To restrict such concentrations, DEG has defined limits at country level for these industries as well as, in the case of financial institutions (excluding funds), additional limits in relation to transnational risk entities.

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 provide scope for implementation of its business strategy. Beyond that, DEG is integrated into KfW’s corporate system of limits. Existing limits must be

Risk-bearing capacity

EUR million	**31.12.2015**	**31.12.2016**
Economic capital requirement	**1,202**	**1,273**
Credit risks	859	919
Market price risks	283	290
of which interest rate risks	105	76
of which foreign currency risks	178	214
Operational risks	60	64
Economic risk coverage	**2,267**	**2,362**
Unrestricted equity	1,065	1,089

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 limits are analysed and reported 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 employs KfW's corporate rating methods for banks, corporates, countries and equity funds. These methods are validated on a group-wide basis. To a lesser extent, DEG also uses its own rating methods, which are validated in-house.

For all commitments, a ratings review is carried out at regular intervals, or if early warning indicators are present. For an M16 rating or below, 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, 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, the commitment moves on to be managed as a non-performing asset. 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.

Non-performing obligo (volume of commitment with an M 19 or M 20 rating) as at 31 December 2016 amounted to EUR 675.7 million (31 December 2015: EUR 593.9 million).

Considering the difficult economic climate, the level and increase of the NPO portfolio are acceptable. The transfer of additional risk provision took appropriate account of this development (cf. section on profitability).

To measure the required risk provision in individual cases, a determination is carried out at regular intervals and on an event-driven basis, using the evaluation tools available, 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. This determination may also be carried out immediately after any depreciation has been identified. 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 prospect of restructuring or winding up. In that case, risk provision might prove inadequate

Market price risk

DEG is not a trading book institution within the meaning of the Capital Requirement Regulation CRR. In other words, there is no trading on own account for the purpose of generating short-term revenue. Market price risks are confined to the asset book. Key types of market price risk for DEG are interest rate risks and foreign currency risks.

DEG measures interest rate and currency risks based on Value at Risk VaR (variance/co-variance approach). When calculating Value at Risk, the modelling includes the following assumptions: 1) normal distribution of profits and losses, 2) mean value of distribution 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).

Commitment obligation in the financing business by credit and country risk classes

Country or credit risk classes on the M scale	Credit risk	Commitment obligation at 31.12.2016			
		Country risk		Credit risk	
		k EUR	per cent	k EUR	per cent
M 1 to M 8	Investment grade	3,829,872	50%	279,398	4%
M 9 to M 15	Speculative grade	2,917,713	38%	5,642,259	73%
M 16 to M 18	Intensive support	983,377	13%	1,133,618	15%
M 19 to M 20	Default	0	0%	675,686	9%
Total		**7,730,962**	**100%**	**7,730,962**	**100%**

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 a year, and the possible present value loss that may additionally occur as a position is closed (Value at Risk VaR).

Of primary relevance to risk control is economic risk-bearing capacity and hence the economic capital requirement per risk type. Where 90% of the stop-loss limit has been reached, any position control 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 a previously implemented ad-hoc reporting process where limits have been breached.

For the economic capital requirement for interest and foreign currency risks at year end please see 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 may result if a commitment made to a customer on specific terms is not refinanced, or only refinanced later 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 based on the available economic capital budget and on 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 the 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.

b) Foreign currency risk

Foreign currency risk is the danger of losses due to a change in exchange rates that is unfavourable to DEG. In the course of fulfilling its development mandate, DEG is indirectly exposed to foreign currency risks in the context of its loans and participating interests business.

Where feasible and appropriate, open foreign currency positions 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 are hedged, provided the amounts are fixed and the payment date can be determined with sufficient certainty.

Transactions in USD are hedged in a macro control system, while micro-hedges are used for any other currencies that require hedging.

DEG avoids volatility driven by exchange rates in its P&L by establishing valuation units in its loans business wherever possible and appropriate. Both macro valuation units (USD positions) and micro valuation units in local currencies are established – currently the Mexican peso, the Russian rouble, the South African rand and the Turkish lira.

Regional distribution of industries by commitment obligation

Share of portfolio (commitment obligation per 31.12.2016)	**Africa**	**Asia**	**Europe/ Caucasus**	**Latin and North America**	**Total**	**Prev. year 31.12.2015**
Financial institutions	10.37%	14.68%	11.15%	15.68%	**51.89%**	48.25%
Manufacturing	1.92%	6.60%	2.07%	5.34%	**15.93%**	17.41%
Energy & water supply	3.41%	3.75%	1.63%	5.12%	**13.91%**	14.47%
Transport, telecoms, infrastructure	1.48%	1.34%	0.86%	1.29%	**4.98%**	6.22%
Other services, tourism	0.81%	1.88%	3.75%	2.88%	**9.33%**	8.99%
Agriculture, forestry, fisheries	0.75%	0.68%	0.43%	1.45%	**3.30%**	3.84%
Mining, quarrying, non-metallic minerals	0.56%	0.00%	0.00%	0.11%	**0.67%**	0.82%
Total	**19.31%**	**28.92%**	**19.90%**	**31.87%**	**100.00%**	-
Prev. year, 31.12.2015	18.94%	29.85%	21.72%	29.49%		100.00%

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 currency, 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 for 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 760.3 million, figure from risk inventory 2016) 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 only at increased market rates. Here, there is a risk that refinancing costs rise at short notice and these costs 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 minor (EUR 1.1 million, figure from risk inventory). As a result, this risk is also rated as not significant.

Since liquidity risk is, however, judged to be a significant risk type overall as per MaRisk AT 2.2, liquidity risk is rated as a significant risk type by DEG.

Liquidity risk is countered by secure liquidity provision at an appropriate level, by careful management and planning of payment flows from the financing business and from refinancing, as well as by careful liquidity planning. Liquidity risks are limited by an indicator to safeguard minimum liquidity. This 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.

The Capital Markets department ensures that liquidity costs are taken into account as part of systemic pricing (preliminary costing).

Operational risk

In addition to the risks to which banks are typically exposed, 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 legal risks and model risks, but excludes strategic risks.

Legal risks comprise the risk of losses arising due to a breach of, or failure to comply with, regulations, which then results in legal disputes or alternative actions designed to prevent litigation. Legal risks play a key role for DEG, since its business operations 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.

Model risk is the possible loss an institution may suffer as the result of 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 assessment, which has to be carried out annually.

Economic capital requirement

EUR million	31.12.2015	31.12.2016
Market price risks	283	290
of which interest rate risk	105	76
of which foreign currency risks	178	214

One of the main OpRisk instruments is the continuous identification of loss events which, provided they are above a minimum level of EUR 1,000, 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 the identification, evaluation and long-term management of potential operational risks with a view to reducing them. The management receives an extensive report on OpRisk events, the results of the analysis and any risk mitigation measures derived from them.

In order to comprehensively counter operational risks in its business operations, DEG has identified process-inherent risks and defined controls to mitigate risks 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 and are regularly reviewed in house and reviewed at least once a year by Internal Audit. The 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 & crisis management, respectively). The emergency processes defined in this way are regularly subjected to a stress test and further refined in the context 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 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 (e.g. in the financial sector in Central America).

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 regulatory requirements or requirements relating to commercial law.

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

Other risks

In its risk inventory, DEG reviews all types of risk within a defined risk universe at least once a year for relevance and significance. In 2015, DEG included the following relevant but not significant risk types as a group under "Other risks":

- Reputation risk: danger of a 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 because of changes in customer behaviour (e.g. collapse of business volume or margins, high unscheduled repayments)
- Strategic risk: danger of losses (in value) or a deterioration in the liquidity situation because of in-house decisions related to DEG's fundamental strategic direction and development of its business operations; due to inadequate supervision of how strategies are being implemented, or because of the sustained pursuit of unprofitable business activities, while still observing DEG's development mandate
- Risk due to pension obligations: danger of the earnings, net worth or liquidity situation 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 in particular from unsubstantiated planning assumptions and subsequently, during the implementation phase, have an impact on the achievement of the project goal in terms of cost, time or quality
- Outsourcing risk: danger of losses (in value) that may be caused by sub-standard or inadequate performance by the service provider as well as by a default on the provider's part (failure to perform)
- Leverage risk: danger arising from DEG's exposure due to a debt that might require 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 on how relevant each individual risk type is for DEG.

In the 2016 risk inventory, which applies in the 2017 financial year, the following changes have been made compared to the previous year:

- Derivatives risk and risk from embedded derivatives have been combined
- Counterparty risk has been extended to include structural foreign currency risk, which comprises the danger of losses (in value) due to the use in wholly owned subsidiaries of equity capital in a currency other than the parent company's reporting currency (EUR)
- The risk types model risk, legal risk (incl. compliance risk) and outsourcing risk have been subsumed under operational risk
- Operational risk has been extended by the following risk types: 1) behavioural risk, which describes the danger of losses due to the inappropriate provision of financial services, including cases of premeditated or negligent misconduct, and 2) system as well as IT & communications technology risk, which describes the danger of losses due to the unsuitability or failure of technical infrastructure hardware or software which might impair the availability, integrity, confidentiality and security of such infrastructure or of the data. This also includes cyber risk

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.

Cologne, 13 February 2017
The Management Board

››› Annual statements of accounts 2016

BALANCE SHEET

PROFIT AND LOSS ACCOUNT

APPENDIX

BALANCE SHEET AT 31.12.2016

(with previous year's figures for comparison)

ASSETS			31.12.2016	31.12.2015
A. Fixed assets	**EUR**	**EUR**	**EUR**	**k EUR**
I. Intangible assets				
1. Purchased industrial property rights and similar rights and assets, including licences in such rights and assets			1,013,536	1,778
2. Payments in advance			4,606,237	2,991
			5,619,773	4,769
II. Tangible assets				
1. Land and buildings		44,481,248		45,110
2. Office equipment		3,302,974		2,859
3. Payments in advance		15,635,894		7,946
			63,420,116	55,915
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	1,296,387,092			1,187,208
b) Lendings to enterprises in which DEG has a participating interest	116,652,925			145,653
c) Other lendings	3,882,740,210			3,910,947
		5,295,780,228		5,243,808
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	76,003,305			103,926
b) Other lendings	3,503,568			2,479
		79,506,873		106,405
			5,375,287,101	5,350,213
Total A (I + II + III)			5,444,326,990	5,410,897
B. Current assets				
I. Debtors and other assets				
1. Amounts owed from investment activities		71,895,553		68,506
of which amounts owed by enterprises in which DEG has a participating interest		9,509,150		4,247
2. Amounts owed from disposal of investments		8,614,714		4,378
3. Amounts owed from consultancy and other services		373,675		814
4. Other assets		59,016,506		77,218
			139,900,448	150,916
II. Bonds and notes			3,156,314	1,550
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			185,916,432	227,419
Total B (I + II + III)			328,973,194	379,886
C. Accruals and deferrals			1,089,068	323
D. Assets held under trust			45,705,874	51,536
Total assets			**5,820,095,124**	**5,842,641**

LIABILITIES			31.12.2016	31.12.2015
A. Shareholder's equity	**EUR**	**EUR**	**EUR**	**k EUR**
I. Subscribed capital				
1. Subscribed capital		750,000,000		750,000
II. Appropriated surplus				
1. Purpose-tied reserve fund				
as at 1 January	3,471,000			11,522
Transfer from net income for previous year	-3,471,000			-8,051
as at 31 December		0		3,471
2. Other appropriated surplus				
as at 1 January	1,431,665,383			1,262,811
Transfer from net income for previous year	86,495,000			168,854
as at 31 December		1,518,160,383		1,431,665
			1,518,160,383	1,435,136
III. Net profit			99,785,720	86,495
Total A (I + II + III)			2,367,946,103	2,271,631
B. Provisions for liabilities and charges				
1. Provisions for pensions and similar obligations		98,247,153		99,186
2. Provisions for taxes		477,763		394
3. Other provisions		39,853,506		37,887
Total B (1 + 2 + 3)			138,578,422	137,467
C. Creditors				
1. Amounts owed for financing investment activities		3,089,726,711		3,154,128
2. Trade creditors		2,786,660		1,352
3. Other creditors		175,351,355		226,528
of which tax payable		1,095,283		911
of which social security		40,190		40
Total C (1 + 2 + 3)			3,267,864,726	3,382,008
D. Liabilities for assets held under trust			45,705,874	51,536
Total liabilities			**5,820,095,124**	**5,842,641**

PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM 01.01 TO 31.12.2016

A comparison with the previous year's figures is not possible

INCOME		01.01–31.12.2016 EUR
1. Sales revenue		
a) from consultancy services	4,435,686	
b) from trust transactions	659,148	
c) from other services	10,795,005	
		15,889,839
of which from affiliated enterprises		47,460
2. Income from participating interests		35,191,041
3. Income from long-term lendings		255,569,019
of which from affiliated enterprises		-10,300,343
4. Other interest receivable and similar income		8,444,134
of which from affiliated enterprises		6,515,702
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	141,443,750	
b) Write-up of amounts owed from investment business and from disposal of investments	2,869,647	
c) Write-back of provisions in respect of lendings business and participating interests	450,000	
		144,763,397
6. Other operating income		147,262,303
Total income		**607,119,733**

CHARGES		
7. Cost of services purchased		1,669,214
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	269,762,069	
b) Depreciation and value adjustments in respect of amounts owed from investment business and disposal of investments	11,818,000	
c) Transfers to provisions in respect of lendings business and participating interests	0	
		281,580,069
9. Interest payable and similar charges		43,260,402
of which to affiliated enterprises		37,983,931
10. Staff costs		
a) Wages and salaries	49,850,043	
b) Social security, pensions and other benefits	6,795,196	
of which pensions	-711,214	
		55,934,025
11. Depreciation and adjustments for impairment of intangible and tangible assets		3,298,034
12. Other operating charges		109,358,975
Total (7 + 8 + 9 + 10 + 11 + 12)		**495,811,933**
13. Tax on income and profit		14,864,719
14. Other taxes		128,361
15. Profit for the financial year		96,314,720
16. Withdrawal from purpose-tied reserve fund		3,471,000
17. Net profit		**99,785,720**

APPENDIX FOR THE 2016 FINANCIAL YEAR

GENERAL NOTES ON THE STATEMENTS OF ANNUAL ACCOUNTS

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH
Kämmergasse 22, 50676 Cologne, registered office: Cologne, commercial register no: HRB 1005 at Cologne Amtsgericht

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 in the balance sheet and the profit and loss account have been supplemented or re-designated in accordance with HGB Article 265.

As of 1 January 2016, there is a requirement to make changes as per Germany's Accounting Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz BilRUG). As a result, changes to the form in which certain facts and circumstances are recorded in the profit and loss account, and to the inclusion of new items in the profit and loss account, were necessary. The extent to which the profit and loss account is comparable to previous years is therefore limited.

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

Accounting/valuation criteria

Purchased immaterial and tangible assets are activated at original costs and subject to straight-line depreciation across their average useful life. As of 1 January 2016, the average period of use for buildings was extended from 33 to 50 years. The adjustment was made because a market trend towards more extended use was observable. As a result of this change, the scheduled depreciation was reduced by EUR 0.4 million in the 2016 financial year.

The choice to activate internally produced intangible assets under current fixed assets as per the provisions of HGB Article 248, Paragraph 2 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 HGB Article 254 (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 EstG Article 6, Section 2, 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. Call and put options with sponsors using a suitable option price model are also considered when establishing the value of a participating interest. 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 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. If a firm offer to purchase the participating interest is received, the proposed purchase price replaces the DCF method as the basis for the value of the participating interest. Country risks are taken into account for participating interests by an upward adjustment of the discount factors. 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 and 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 and bonds and notes under current fixed assets without a specific loan loss provision. 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.

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

As per HGB Article 246, Section 2, Clause 2, 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 1.4 million as at the balance sheet date. The original costs and the fair value of the assets each amounted to EUR 1.4 million as at 31 December 2016.

As at 31 December 2015, the obligations under the deferred compensation provision model were discounted using an average rate of interest over seven years (3.89%) resulting from an assumed residual maturity of 15 years. Due to the change in the law, an average rate over ten years (4.01%) has to be applied from 31 December 2016. The difference compared to the seven-year average market interest rate (3.24%) amounts to EUR 18,371. Expenditure and income of EUR 26,926 were offset.

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 HGB Article 250 (1) and comprise expenditure prior to 31 December 2016 where it 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 HGB Article 274, Section 1, Clause 2.

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.

Lendings, bonds and notes under current fixed assets, overnight and time deposits, debts and derivative financial instruments used for currency management and denominated in foreign currency are summarised in valuation units pursuant to HGB Article 254. Along with one macro valuation unit for USD, additional micro valuation units have been established for the other foreign currencies (RUB, MXN, ZAR, TRY). The foreign currency valuation units are recognised in the balance sheet using the gross hedge presentation method.

For the first time, amounts owed from outstanding disbursements with deduction of the specific loan loss provisions were included in the USD valuation unit. This was designed to bring the valuation unit into line with currency risk management. The valuation of these outstanding items was previously carried out by applying the lowest-value principle. The foreign currency gains achieved by this inclusion amounted to EUR 1.9 million.

In accordance with DEG's risk strategy, currency risks associated with lendings, bonds and notes under current fixed assets, and overnight and time deposits are hedged with reverse loan loss provisions via matching currency refinancing or with derivative financial instruments in foreign currency. For the macro valuation unit in USD, all on-balance sheet transactions in USD (lending/deposit transactions) are considered jointly. The resulting (net) currency risk remaining is hedged with appropriate derivatives transactions. The hedges used to manage the economic foreign currency position in USD at macro level are implemented in matching currencies as a matter of principle. The effectiveness of the hedging relationship can therefore be prospectively assumed.
For the micro valuation units, the currency risks arising from individual basic transactions are hedged with individual hedging instruments with identical payment flows. The prospective effectiveness of the micro valuation units is evaluated monthly using the critical terms match method. The effectiveness of the hedging relationship is hence confirmed for the whole of the term.

The macro valuation unit in USD comprises basic transactions in the form of: lendings in foreign currency with a book value, after deduction of specific loan loss provisions, equivalent to EUR 3,359.9 million; overnight and time deposits of EUR 36.0 million; bonds and notes under current fixed assets of EUR 16.5 million and liabilities for financing the investment business (borrowers' notes and overnight loans) of EUR 2,645.1 million. The remaining (net) currency risks that required hedging amounted to EUR 767.3 million in total as at 31 December 2016. This net position was hedged with off-balance sheet transactions (interest rate swaps and forward exchange transactions) in the sum of EUR 889.0 million in total.

At the balance sheet date, the basic transactions subsumed into the macro valuation unit showed an unrealised currency gain of EUR 154.4 million.

To hedge the foreign currency risk, hedging transactions were used which conversely showed a market value of EUR 176.5 million as at the balance sheet date. The market values were determined using the dollar offset method.

Provision for contingent losses of EUR 22.1 million in total was made for the ineffective portion of the macro valuation unit.

The micro valuation units comprise basic transactions in the form of lendings in foreign currency equivalent to EUR 198.3 million, which were hedged with off-balance sheet transactions (cross currency swaps) in the same amount.

At the effective date of 31 December 2016, DEG carried out a calculation using the present value method as per the IDW RS BFA 3 principles issued by the German Institute of Certified Public Accountants, whereby provision for contingent losses must only be made if the book value of the banking book exceeds its present value. In this approach, risk and management costs are taken into account based on broad assumptions, though the assumptions tend towards overestimation. As at 31 December 2016, the calculation shows no requirement to make provision.

Derivatives transactions that neither enter into the foreign currency valuation unit nor serve to control interest rate risks are valued according to the imparity principle at the balance sheet date. In accordance with HGB Article 249, Section 1, Clause 1, this has resulted in provision for contingent losses of EUR 26 thousand. Accrued interest is recognised for all derivatives.

NOTES ON ASSETS

Fixed assets

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

Intangible assets

Intangible assets includes purchased licences in the amount of EUR 1.0 million as well as payments in advance of EUR 4.6 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 44.5 million as well as office equipment of EUR 3.3 million.

Payments in advance includes the sum of EUR 13.8 million for an office building under construction and EUR 1.8 million to extend the existing office building.

Investments in partner countries

This item shows investments from funds on own account of EUR 5,295.8 million, which are made up of participating interests and lendings.

Investments from funds on own account were made in 551 enterprises in 83 countries. This included five enterprises where the investments were part-financed from German federal trust funds and by other trustee lenders. In eight enterprises, third parties entered into risk sub-participations in the form of counter-guarantees.

Investments in partner countries includes foreign currency lendings with a par value equivalent to EUR 3,809.4 million.

Movements in fixed asset balances

	Original costs				
	01.01.2016	Accruals	Book transfers	Disposals	31.12.2016
	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	6,820,800	298,192	0	0	7,118,992
2. Payments in advance	2,990,993	1,615,244	0	0	4,606,237
	9,811,793	1,913,436	0	0	11,725,229
II. Tangible assets					
1. Land and buildings	55,375,972	247,645	0	0	55,623,617
2. Office equipment	7,481,643	1,808,656	0	230,223	9,060,076
3. Payments in advance and assets under construction	8,140,688	7,689,729	0	0	15,830,417
	70,998,303	9,746,030	0	230,223	80,514,110
Total (I + II)	80,810,096	11,659,466	0	230,223	92,239,339
III. Financial fixed assets					
1. Investments in partner countries					
a) Participating interests	1,461,938,501	289,365,518	0	169,562,807	1,581,741,212
b) Lendings to enterprises in which DEG has a participating interest	164,611,913	23,188,734	-4,487,178	32,082,385	151,231,084
c) Other lendings	4,272,474,413	1,185,567,632	4,487,178	1,210,621,293	4,251,907,930
Total 1 (a + b + c)	5,899,024,827	1,498,121,884	0	1,412,266,485	5,984,880,226
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	103,478,709	8,955,444	0	35,351,375	77,082,778
b) Other lendings	2,479,338	1,398,070	0	373,840	3,503,568
Total 2 (a + b)	105,958,047	10,353,514	0	35,725,215	80,586,346
Total III (1 + 2)	6,004,982,874	1,508,475,398	0	1,447,991,700	6,065,466,572
Total (I + II + III)	**6,085,792,970**	**1,520,134,864**	**0**	**1,448,221,923**	**6,157,705,911**

							Depreciation	Book value
	01.01.2016	Accruals	Book transfers	Currency	Consumption[1]	Disposals	31.12.2016	31.12.2016
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	5,042,887	1,062,569	0	0	0	0	6,105,456	1,013,536
	0	0	0	0	0	0	0	4,606,237
	5,042,887	1,062,569	0	0	0	0	6,105,456	5,619,773
	10,266,472	875,897	0	0	0	0	11,142,369	44,481,248
	4,622,565	1,359,568	0	0	0	225,031	5,757,102	3,302,974
	194,523	0	0	0	0	0	194,523	15,635,894
	15,083,560	2,235,465	0	0	0	225,031	17,093,994	63,420,116
	20,126,447	3,298,034	0	0	0	225,031	23,199,450	69,039,889
	274,730,178	94,642,617	0	0	35,870,964	48,147,711	285,354,120	1,296,387,092
	18,959,264	27,134,925	-156,370	1,397,313	5,984,258	6,772,715	34,578,159	116,652,925
	361,527,801	138,305,919	156,370	5,069,996	50,160,089	85,732,277	369,167,720	3,882,740,210
	655,217,243	260,083,461	0	6,467,309	92,015,311	140,652,703	689,099,999	5,295,780,227[2]
	1,693,637	2,094,315	0	0	0	791,048	2,996,904	74,085,874[3]
	0	0	0	0	0	0	0	3,503,568
	1,693,637	2,094,315	0	0	0	791,048	2,996,904	77,589,442
	656,910,880	262,177,776	0	6,467,309	92,015,311	141,443,751	692,096,903	5,373,369,669
	677,037,327	**265,475,810**	**0**	**6,467,309**	**92,015,311**	**141,668,782**	**715,296,353**	**5,442,409,558**

[1] For fixed assets, this is equivalent to the utilisation of the risk provision.
[2] Of which EUR 51,264,275 hedged with third-party counter-guarantees (unfunded risk participation).
[3] Without accrued pro-rata interest.

Financial fixed assets with a residual maturity 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	9.1
c) Other lendings	735.0
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	66.0
b) Other lendings	0.0
Total	**810.1**

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

Other financial fixed assets

The item Bonds and notes in current fixed assets (EUR 76.0 million) shows financing committed by DEG that has been securitised. It comprises one convertible bond (EUR 7.2 million) with three options with the right of exchange for shares, and five further bonds (EUR 66.9 million). Accrued interest at the balance sheet date was EUR 1.9 million. The portfolio value adjustment was EUR 1.1 million.

The item also includes Other lendings comprising EUR 3.5 million in loans to staff members.

Amounts owed from investment activities

Amounts owed of EUR 60.4 million comprises largely dividends and interest due (including accrued interest at year end and commitment fees 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 11.5 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).

Other assets

Other assets largely consists of balancing items for accountancy purposes relating to foreign currency transactions in respect of the foreign currency valuation units in MXN, ZAR, RUB and TRY (EUR 37.3 million), amounts owed by the tax office (EUR 11.9 million) and by consortium partners (EUR 6.9 million).

Other bonds and notes

This item comprises a bond acquired in the amount of EUR 1.7 million to hedge part-time work programmes for employees approaching retirement age.

Following collateral realisation, shares in the amount of EUR 1.4 million were accepted in respect of one loan commitment.

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

Balances with credit institutions covers investments in the money market of EUR 142.0 million invested with the shareholder KfW as well as current account balances of EUR 43.9 million. These comprise corporate funds temporarily awaiting investment in enterprises in partner countries.

Accruals and deferrals

This item comprises, among other things, expenditure on licences and maintenance costs for hardware and software representing charges for the 2017 and following financial years.

Assets held under trust

This item comprises investments in partner countries from trust funds in the form of participating interests of EUR 9.7 million and lendings of EUR 29.8 million.

Amounts owed on a trust basis of EUR 6.2 million are also shown here.

EUR 22.7 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.

Residual maturity profile of debtors, investments and other assets

EUR million	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. from investment activities	71.9	-	-	-	71.9*
2. from disposal of investments	8.6	-	-	-	8.6
3. from consultancy and other services	0.4	-	-	-	0.4
Other assets	58.4	0.6	-	-	59.0
Total	**139.3**	**0.6**	**0.0**	**0.0**	**139.9**

* Of this EUR 11.4 million (2015: EUR 15.7 million) owed by the shareholder.

Deferred tax assets

There are taxable temporary differences arising specifically from the transfer of hidden reserves as per EstG Article 6b and from provision for risk, which result in deferred tax liabilities of EUR 0.4 million. These are offset by deductible temporary differences, especially from provisions for risk and other provisions, which result in deferred tax assets in the amount of EUR 12.2 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's consolidated accounts. KfW prepares consolidated accounts which is 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 suggestion has been addressed to the Shareholders' Meeting proposing that the profit for the financial year of EUR 99.8 million be allocated to the item "Other retained earnings".

Purpose-tied reserve fund

Business Support Services are designed to enhance the developmental impacts of existing DEG commitments and create improved conditions to facilitate new financing commitments on the part of DEG. They include, in particular, enterprise-level training and qualification measures, technical assistance with environmental and social issues, pre-investment studies, specific advisory measures and the assignment of external experts. After being transferred to reserves, the funds are deployed for up to five years.

In the 2016 financial year, the sum of EUR 2.1 million was transferred from existing reserves for such measures; EUR 1.4 million was written back, since the five-year allocation period for the funds had elapsed.

Provisions for pensions and similar obligations

In accordance with HGB Article 253, Section 2, Clause 2, provisions were discounted across the board at the average market interest rate resulting from an assumed residual maturity of 15 years.
As at 31 December 2015, discounting was carried out for an average market interest rate over seven years (3.89%). Due to the change in the law, an average rate over ten years (4.01%) has to be applied from 31 December 2016. The difference compared to the previous seven year average market interest rate as at 31 December 2016 (3.24%) amounts to EUR 11.6 million. During the calculation, an increase in annual salaries of 2.8% and a pension rise of 2% or 1%, respectively, were assumed, depending on remuneration or pension scheme.

Provision for taxes

The item Provision for taxes relates to withholding tax of EUR 0.5 million from the sale of a participating interest which will be accounted for in 2017.

Other provisions

In the 2016 financial year, provisions for contingent losses were made for the ineffective portion of the foreign currency valuation unit in USD (EUR 22.1 million).

The item also includes provisions for variable remuneration (EUR 6.4 million), for part-time work programmes for employees approaching retirement age (EUR 2.9 million) as well as for leave and compensation for overtime (EUR 1.8 million).

Amounts owed for financing investment activities

Amounts owed here refers specifically to loans against borrowers' notes in the amount of EUR 2,700.8 million placed with the shareholder KfW (2015: EUR 3,126.6 million).

Other amounts owed

Other amounts owed includes EUR 154.4 million in balancing items for accountancy purposes relating to foreign currency transactions in respect of the macro valuation unit in USD, EUR 9.3 million owed in respect of consortium partners and borrowers, EUR 5.1 million owed in respect of the Bill & Melinda Gates Foundation and EUR 2.5 million owed in respect of trust funds not yet transferred.

Residual maturity profile of amounts owed

EUR million	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
1. Amounts owed for financing investment activities	500.9	390.3	1,928.1	270.4	3,089.7*
2. Amounts owed to trade creditors	2.8	-	-	-	2,8
3. Other amounts owed	174.2	-	1.2	-	175.4
Total	**677.9**	**390.3**	**1.929.3**	**270.4**	**3,267.9**

* Of which EUR 3,089.4 million to the shareholder (2015: EUR 3,149.1 million).

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 44.2 million from BMZ, and EUR 1.5 million from the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).

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 is presented in the appendix for the first time in the 2016 financial year. This is due to changes relating to the new definition in HGB Article 277 (1) (BilRUG). A comparison with previous years is not possible.

The term sales revenue comprises earnings from the provision of services in connection with the financing business. The previous year's figures were not adjusted for inclusion in the profit and loss account.

Under the new definition, sales revenue for the previous year would have amounted to EUR 14.0 million.

Regionally, sales revenue breaks down as follows:

EUR million	2016
Africa	5.6
America	3.7
Asia	4.0
Europe	1.5
Worldwide	1.1
Total	**15.9**

Income from participating interests and long-term lendings

Income from participating interests and from lendings in partner countries is largely made up of dividends, interest on lendings and bonds and related hedging transactions, and commitment fees and commissions on loans. The breakdown by region (excluding the results from hedging transactions of EUR -11.7 million) is as follows:

EUR million	2016	2015
Africa	79.9	63.5
America	90.4	86.5
Asia	102.8	100.3
Europe	29.3	43.0
Total	**302.4**	**293.3**

Other interest receivable and similar income

This item includes EUR 6.2 million in income from the sale of fixed interest rate swaps, earnings of EUR 0.9 million from late subscriber interest with funds as well as earnings from interest on receivables from the disposal of investments of EUR 0.8 million.

Other operating income

This item includes specifically income from the disposal of participating interests (EUR 90.6 million), realised gains from exchange rate movements (EUR 32.8 million) and income from forward exchange transactions (EUR 4.5 million).

In the year under review, extraordinary gains of EUR 5.9 million were realised from the sale of a conversion right.

Income of EUR 8.6 million (2015: EUR 4.5 million) resulted from foreign currency valuation as per HGB Article 256a, where residual maturity is a year or less.

NOTES ON CHARGES

Cost of services purchased

Cost of services purchased is presented in the appendix for the first time in the 2016 financial year. This is due to changes relating to the new definition of sales revenue as per HGB Article 277 (1) (BilRUG). A comparison with previous years is not possible.
In previous years, these charges were itemised as other operating charges. However, it is not possible to quantify the previous year's amount.

Interest payable and similar charges

These charges were incurred largely on loans against borrowers' notes and bank loans (EUR 24.6 million) and also include the net result from derivatives hedging (EUR 13.3 million). For the 2016 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 (2015: EUR 4.0 million).

Staff costs

The charges for pensions and other benefits of EUR 0.2 million were offset against the disposal of provisions for pensions in the amount of EUR 0.9 million. The effect from the interest rate change due to the applicable average interest rate changing from seven to ten years amounted to EUR 1.7 million for 2016. This item also includes contributions to the Pension Association of Publicly Sponsored Companies (Versorgungsverband bundes- und landesgeförderter Unternehmen e.V. VBLU) (EUR1.2 million).

Depreciation and adjustments for impairment of intangible and tangible assets

In 2016, depreciation for impairment of tangible assets came to EUR 3.3 million in total (2015: EUR 2.8 million). This includes depreciation on office equipment of EUR 1.3 million and on buildings of EUR 0.9 million as well as depreciation on hardware and software of EUR 1.1 million. The latter includes EUR 0.5 million in extraordinary depreciation.

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 2016 annual result increased by the sum of EUR 20,000.

Other operating charges

This item includes specifically realised charges in respect of exchange rate movements (EUR 32.9 million), charges for expert consultants and advisers (EUR 21.7 million), for forward exchange transactions (EUR 11.7 million), for travel expenses (EUR 4.5 million) and charges relating to foreign currency valuation as per HGB Article 256a, where residual maturity is a year or less (EUR 7.4 million; 2015: EUR 4.8 million).

Other operating charges also includes EUR 5.1 million in total for provision for contingent losses for the macro valuation unit in USD.

Income and charges relating to other periods

EUR 6.7 million in out-of-period interest income was received from the repayment of a non-performing loan commitment in 2016.

Other income includes EUR 2.6 million in income relating to other periods from the write-back of other provisions.

There were no charges relating to other periods in the 2016 financial year.

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

In the 2016 financial year the following auditing fees were taken into consideration:

2016	EUR
Auditing fee	541,123
Other certification services	260,130
Tax consultancy services	4,296
Total	**805,549**

The statement of auditing fees for 2016 includes EUR 3,507 in expenditure which was not covered by the provision made in 2015.

Write-backs of provisions from 2015 of EUR 8,015 are offset in the statement of fees for other certification services.

Taxes on income and profit

Tax charges of EUR 15.1 million in total comprise tax on profits for the 2016 financial year of EUR 12.9 million and foreign tax charges of EUR 2.2 million. These are offset by tax refunds for the 2014 financial year of EUR 0.2 million.

PROFIT FOR THE FINANCIAL YEAR/NET INCOME

The net income of EUR 99.8 million recognised exceeds the profit for the financial year by EUR 3.5 million, the sums withdrawn from the purpose-tied reserve fund or written back respectively. As stipulated in the articles of association, it may not be distributed.

Follow-up report

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

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 2.4 million for four 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 enterprise in question.

Given the enterprise's 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 0.7 million annually under tenancy agreements that run until 2020.

A total of EUR 0.3 million will be payable in fees on leasing contracts for the remaining term until 2018.

Obligations from undisbursed participating interests and lendings amount to EUR 1,668.5 million.

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.

Derivatives transactions

Volumes

EUR million	Nominal values*		Positive market values	Negative market values
	31.12.2015	**31.12.2016**	**31.12.2016**	**31.12.2016**
Contracts with interest rate risks				
Interest rate swaps	631.4	441.4	13.0	1.6
Total interest rate risks	631.4	441.4	13.0	1.6
Contracts with currency risks				
Forward foreign exchange transactions, swaps	48.6	115.7	1.1	0.0
Non-deliverable forwards	0.0	1.4	0.0	0.0
Currency and cross-currency interest rate swaps	1,448.7	1,169.8	55.9	195.5
Total currency risks	**1,497.3**	**1,286.9**	**57.0**	**195.5**
Total	**2,128.7**	**1,728.3**	**70.0**	**197.1**

Counterparties

EUR million	Nominal values*		Positive market values	Negative market values
	31.12.2015	**31.12.2016**	**31.12.2016**	**31.12.2016**
OECD banks	2,128.7	1,728.3	70.0	197.1
Total	**2,128.7**	**1,728.3**	**70.0**	**197.1**

Maturities

Nominal values*. EUR million	Interest rate risks		Currency risks	
	31.12.2015	**31.12.2016**	**31.12.2015**	**31.12.2016**
Residual maturities				
up to 3 months	0.0	0.0	76.2	167.4
more than 3 months up to 1 year	118.9	299.0	285.9	225.3
more than 1 year up to 5 years	462.5	142.4	836.5	610.2
more than 5 years	50.0	0.0	298.7	284.0
Total	**631.4**	**441.4**	**1,497.3**	**1,286.9**

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

AVERAGE NUMBER OF STAFF OVER THE YEAR

Staff not covered by regular pay scales and senior executives	364
Staff covered by regular pay scales	151
Total	**515**
Number of female staff	268
Number of male staff	247
Total	**515**

These figures include part-time staff (95) and temporary staff (10) but not members of the Management Board, staff on parental leave, apprentices, interns or local staff in foreign countries.

REMUNERATION OF CORPORATE BODIES

Total charges for the Supervisory Board in the year under review came to EUR 30,098, of which EUR 15,228 was made up of annual remuneration for membership of the Supervisory Board and its committees. Attendance fees, daily allowances and travel expenses accounted for EUR 14,870. No advances or loans were granted to members of the Supervisory Board.

Management Board remuneration for the 2016 financial year came to EUR 1,258,885. Current 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 34,917 for benefits in kind and other emoluments. The performance-related management bonus approved for 2016 was EUR 189,133, of which EUR 94,567 will be paid over several years. In 2016, staggered payments of EUR 78,636 were made from the deferred management bonuses for the years 2013 to 2015. No advances or loans were provided to members of the Management Board or surviving dependants.

The deferred management bonus for 2016 for one former member of the Management Board amounted to EUR 8,500 in total, of which EUR 4,250 will be paid over several years. In addition, staggered payments of EUR 40,245 were made from management bonuses deferred between 2013 and 2015.

Total payments made to former members of the Management Board and surviving dependants amounted to EUR 879,701. Pension provisions for these persons amounted to EUR 11,283,968.

Information on DEG's investment holdings 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 TCU[5]	Result[4] in TCU[5]
1.	425	Banque Gabonaise de Développement (BGD), Libreville, Gabon	EUR	1.0000	1.97		[7]	[7]
2.	757	Latin American Agribusiness Development Corporation S.A., Panama City, Panama	USD	1.0541	8.33		[7]	[7]
3.	1480	Industrial Promotion Services (West Africa) S.A., Ivory Coast	XOF	655.9570	9.00		13,158,023	911,900
4.	2172	Fransabank S.A.L., Beirut, Lebanon	LBP	1590.5150	5.00		2,949,177,947	270,777,037
5.	2217	Lebanese Leasing Company S.A.L. LLC, Beirut, Lebanon	LBP	1590.5150	12.50		20,029,302	1,391,072
6.	2562	TOO Knauf Gips Kaptschagaj, Kaptschagaj, Kazakhstan	EUR	1.0000	40.00		6,985,624	2,752,909
7.	2615	LHF – Latin Healthcare Fund L.P., Acton, USA	USD	1.0541	10.09		1,713	87
8.	2728	Safety Centre International Ltd., Port Harcourt, Nigeria	NGN	321.3550	8.00		[7]	[7]
9.	2743	Kyrgyz Investment and Credit Bank, Bishkek, Kyrgyzstan	USD	1.0541	17.00		[7]	[7]
10.	2782	The SEAF Central and Eastern Europe Growth Fund (SEAFGF) LLC, Washington D.C., USA	USD	1.0541	23.90		5,387	-476
11.	2893	Egyptian Direct Investment Fund Ltd., St. Peter Port, Guernsey	USD	1.0541	16.20		4,925	-618
12.	2913	SEAF Sichuan SME Investment Fund LLC, Washington D.C., USA	USD	1.0541	13.33		24,392	-5,613
13.	2914	Accession Mezzanine Capital L.P., London, UK	EUR	1.0000	8.72		10,200	-5,435
14.	3030	Turkish Private Equity Fund I L.P., St. Peter Port, Guernsey	USD	1.0541	11.33		16,361	-2,730
15.	3046	Penguen Gida Sanayi A.S., Bursa, Turkey	TRY	3.7072	12.74		60,544	3,814
16.	3067	Ethos Technology Fund I Partnership, Johannesburg, Republic of South Africa	ZAR	14.4570	9.30		96,597	107,815
17.	3109	DBG Eastern Europe II L.P., St. Helier, Jersey	EUR	1.0000	14.88		38,845	4,964
18.	3117	Industrial Promotion Services Kenya Ltd., Nairobi, Kenya	KES	108.1850	14.87		5,989,378	1,173,676
19.	3164	Quadriga Capital Russia Private Equity Fund II L.P., St. Helier, Jersey	USD	1.0541	4.50		4,850	-1,628
20.	3230	SEAVI Advent Equity IV Fund Ltd. Partnership, George Town, Cayman Islands	USD	1.0541	13.48		[7]	[7]
21.	3344	European Financing Partners S.A., Luxembourg	EUR	1.0000	7.63		161	10,943
22.	3379	Unibank Commercial Bank OJSC, Baku, Azerbaijan	AZN	1.8625	8.33		[7]	[7]
23.	3436	Nanchong City Commercial Bank, Nanchong, People's Republic of China	CNY	7.3203	5.99		10,029,227	2,202,795
24.	3459	ePak Holdings Ltd., Hong Kong	USD	1.0541	13.57		[7]	[7]
25.	3489	SEAF India International Growth Fund, Port Louis, Mauritius	INR	71.5935	6.57		622,313	169,690
26.	3491	Advent Central & Eastern Europe III L.P., Boston, USA	EUR	1.0000	5.35		19,430	3,549
27.	3498	Balkan Accession Fund C.V, Curacao	EUR	1.0000	11.36		91,431	613

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 TCU[5)]	Result[4)] in TCU[5)]
28.	3511	Open Joint Stock Company (Center Invest Bank Group), Rostov-On-Don, Russian Federation	RUB	64.3000	20.65		[7)]	[7)]
29.	3541	LC Fund II, George Town, Cayman Islands	USD	1.0541	9.07		1,358	2,286
30.	3543	Latin Power III, L.P., George Town, Cayman Islands	USD	1.0541	1.81		36,186	-4,498
31.	3665	TOO Isi Gips Inder, Rayon Inderskij, Kazakhstan	EUR	1.0000	40.00		1,218,172	166,996
32.	3696	Open Joint Stock Company Bank Respublika, Baku, Azerbaijan	AZN	1.8625	10.87		[7)]	[7)]
33.	3756	Aarvee Denim and Exports Ltd., Ahmedabad, India	INR	71.5935	14.38		2,638,904	70,265
34.	3765	Advent Latin American Private Equity Fund III-B L.P., Wilmington, USA	USD	1.0541	100.00		2,368	-621
35.	3765.1	Advent International Global Private Equity, Boston, USA	USD	1.0541		3.47	[7)]	[7)]
36.	3766	CDH China Growth Capital Fund II L.P, George Town, Cayman Islands	USD	1.0541	3.17		673,417	43,076
37.	3796	Russia Partners II, L.P., New York, USA	USD	1.0541	3.88		255,036	22,782
38.	3810	Ethos Private Equity Fund V, Johannesburg, Republic of South Africa	USD	1.0541	13.27		5,557	-7,409
39.	3825	Vantage Mezzanine Fund Trust, Johannesburg, Republic of South Africa	ZAR	14.4570	6.78		50,495	31,745
40.	3878	Ace Power Embilipitiya Pvt Ltd., Colombo, Sri Lanka	LKR	157.9865	26.00		1,979,800	-543,671
41.	3890	Evonik Lanxing (Rizhao) Chemical Industrial Co. Ltd., Rizhao, People's Republic of China	EUR	1.0000	10.00		38,872	3,036
42.	3921	Banco Finterra S.A., Mexico D.F., Mexico	MXN	21.7759	14.94		376,975	-29,313
43.	3923	Orient Power Company (Private) Ltd., Lahore, Pakistan	PKR	110.0739	17.96		8,437,450	1,674,889
44.	4004	InecoBank CJSC, Yerevan, Armenia	AMD	510.0250	9.58		[7)]	[7)]
45.	4045	Joint Stock Bank «Rosevrobank», Moscow, Russian Federation	RUB	64.3000	5.70		25,651,724	5,468,894
46.	4053	Hebei Sihai Development Co., Ltd., Chengde, People's Republic of China	CNY	7.3203	15.15		[7)]	[7)]
47.	4078	Banco Pine SA, São Paulo, Brazil	BRL	3.4326	4.60		1,162,858	41,026
48.	4083	Global Environment Emerging Markets Fund III-A L.P., Alberta, Canada	USD	1.0541	4.58		77,129	-4,039
49.	4090	DLJ SAP International, LLC, New York, USA	USD	1.0541	3.29		31,442	-20,583
50.	4095	Emerging Europe Leasing and Finance (EELF) B.V., Amsterdam, Netherlands	EUR	1.0000	25.00		[7)]	[7)]
51.	4149	Transkapitalbank PJSC, Moscow, Russian Federation	RUB	64.3000	9.14		[6)]	[6)]
52.	4151	Hansastroi Oy, Vantaa, Finland	EUR	1.0000	16.00		2,642	-2,572
53.	4193	OAO Bucharagips, Bukhara, Uzbekistan	UZS	3363.7900	25.00		11,739,981	4,906,531
54.	4209	Turkish Private Equity Fund II L.P., St. Peter Port, Guernsey	EUR	1.0000	4.95		724,989	22,948
55.	4210	The Kibo Fund LLC, Ebene, Mauritius	EUR	1.0000	13.80		[6)]	[6)]
56.	4216	PCC-DEG Renewables GmbH, Duisburg, Germany	EUR	1.0000	40.00		16,266	-3,085

Information on DEG's investment holdings 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 TCU[5]	Result[4] in TCU[5]
57.	4226	Lombard Asia III L.P., George Town, Cayman Islands	USD	1.0541	2.13		81,892	-1,479
58.	4244	CPFL Energias Renováveis S.A., São Paulo, Brazil	BRL	3.4326	1.29		4,176,063	-54,447
59.	4300	Global Credit Rating Company Ltd., Road Town, British Virgin Islands	USD	1.0541	26.98		[7]	[7]
60.	4323	Nexxus Capital Private Equity Fund III, Mexico D.F., Mexico	USD	1.0541	10.26		68,042	-2,312
61.	4417	IDFP China Capital Realisation Fund L.P., George Town, Cayman Islands	USD	1.0541	19.80		3,998	1,487
62.	4420	African Development Partners I, LLC, Ebene, Mauritius	EUR	1.0000	5.96		253,053	1,226
63.	4422	Banyan Tree Growth Capital, L.L.C., Port Louis, Mauritius	USD	1.0541	27.00		91,932	-7,077
64.	4503	Istmo Compania de Reaseguros, Inc., Panama City, Panama	USD	1.0541	12.47		144,938	-5,883
65.	4507	India Agri Business Fund Ltd., Ebene, Mauritius	USD	1.0541	16.67		93,641	9,978
66.	4518	OJSC Tourism Promotion Services, Dushanbe, Tajikistan	TJS	8.3103	21.00		29,740	-31,134
67.	4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund, L.P., George Town, Cayman Islands	USD	1.0541	24.37		35,579	4,494
68.	4538	Asia Insurance 1950 Public Company Ltd., Bangkok, Thailand	THB	37.7459	24.62		314,204	67,309
69.	4553	Hotel Polana S.A., Maputo, Mozambique	MZN	75.6700	9.88		-142,810	-298,280
70.	4580	Acon Latin America Opportunities, Toronto, Canada	USD	1.0541	39.99		53,883	-12,711
71.	4582	The Africa Health Fund, LLC, Port Louis, Mauritius	USD	1.0541	9.49		46,549	-1,179
72.	4636	Renewable Energy Asia Fund, L.P., London, UK	EUR	1.0000	11.58		96,083	10,558
73.	4641	OOO Gematek, Saint Petersburg, Russian Federation	EUR	1.0000	5.76		901,638	62,811
74.	4650	Komercijalna Banka a.d. Belgrade, Belgrade, Serbia	RSD	123.5000	4.60		62,532,754	-6,292,369
75.	4680	PT Indonesia Infrastructure, Jakarta, Indonesia	IDR	14208.7800	15.12		2,208,074,233	74,640,230
76.	4684	Emerging Europe Accession Fund, Amsterdam, Netherlands	EUR	1.0000	10.15		[7]	[7]
77.	4765	GEF Africa Sustainable Forestry Fund, Chevy Chase, USA	USD	1.0541	8.92		97,302	-25,790
78.	4799	Asia Environmental Partners (PF1) L.P., Grand Cayman, Cayman Islands	USD	1.0541	15.96		96,113	-10,151
79.	4881	Catalyst Fund 1 LLC, Port Louis, Mauritius	USD	1.0541	10.17		74,912	-4,962
80.	4924	Private Equity New Markets III K/S, Hellerup, Denmark	USD	1.0541	7.31		125,796	-9,027
81.	4925	Africa Joint Investment Fund, Ebene, Mauritius	USD	1.0541	16.00		34,107	-45,538
82.	4927	Aureos South-East Asia Fund II, L.P., Toronto, Canada	USD	1.0541	5.74		85,390	-12,532

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83.	4934	Interact Climate Change Facility S.A., Luxembourg	EUR	1.0000	7.69		109	9,687
84.	4941	The CapAsia ASEAN Infrastructure Fund III L.P., Grand Cayman, Cayman Islands	USD	1.0541	13.17		45,456	607
85.	4942	EMX Capital Partners L.P., Mexico D.F., Mexico	USD	1.0541	20.08		24,678	-2,616
86.	4947	Enfoca Discovery 1 L.P., Grand Cayman, Cayman Islands	USD	1.0541	7.93		140,538	-10,800
87.	4953	NAMF II (Mauritius) Ltd., Ebene, Mauritius	USD	1.0541	18.22		680	-358
88.	4971	Knauf Gips Buchara OOO, Bukhara, Uzbekistan	EUR	1.0000	24.88		135,608,205	23,390,251
89.	4979	Deepak Fasteners Ltd., Ludhiana, India	INR	71.5935	6.57		1,638,547	-103,528
90.	4989	Harmon Hall Holding S.A. de C.V., Mexico D.F., Mexico	MXN	21.7759	12.76		219,481	19,214
91.	4991	Chase Bank (Kenya) Ltd., Nairobi, Kenya	KES	108.1850	6.37		[7)]	[7)]
92.	5050	Maghreb Private Equity Fund III, Port Louis, Mauritius	EUR	1.0000	9.80		137,588	5,680
93.	5062	Lereko Metier Sustainable Capital Fund Trust, Sandhurst, Republic of South Africa	ZAR	14.4570	14.49		93,462	-143
94.	5068	Mediterra Capital Partners I, L.P., St. Peter Port, Guernsey	EUR	1.0000	6.09		179,750	26,187
95.	5084	Orient Investment Properties Ltd., Road Town, British Virgin Islands	USD	1.0541	4.07		559,114	-5,884
96.	5085	Mongolia Opportunities Fund I L.P., Grand Cayman, Cayman Islands	USD	1.0541	13.33		21,997	-2,335
97.	5099	JK Paper Ltd., Fort Songadh, India	INR	71.5935	1.76		8,986,400	795,600
98.	5102	Worldwide Group, Inc, Charlestown, St. Kitts & Nevis	USD	1.0541	32.28		[7)]	[7)]
99.	5122	Berkeley Energy Wind Mauritius Ltd., Ebene, Mauritius	EUR	1.0000	25.80		97,043	10,902
100.	5125	EMF NEIF I (A) L.P., Southampton, UK	USD	1.0541	28.08		10,709	-14,316
101.	5134	VI (Vietnam Investments) Fund II, L.P., George Town, Cayman Islands	USD	1.0541	7.86		182,509	41,851
102.	5140	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet, São Paulo, Brazil	BRL	3.4326	39.69		25,881	-6,823
103.	5142	Russia Partners Technology Fund, L.P., Grand Cayman, Cayman Islands	USD	1.0541	21.59		102,924	3,125
104.	5172	Teak Tree Investments, George Town, Cayman Islands	USD	1.0541	16.44		23,609	51
105.	5203	Clean Energy Transition Fund L.P., St. Peter Port, Guernsey	EUR	1.0000	15.39		42,384	7,959
106.	5216	Ambit Pragma Fund II, Mumbai, India	INR	71.5935	10.68		1,629,951	-116,009
107.	5227	Equis Asia Fund L.P., George Town, Cayman Islands	USD	1.0541	4.65		311,493	2,117
108.	5240	Grassroots Business Investors Fund I L.P., George Town, Cayman Islands	USD	1.0541	16.36		19,905	-1,483
109.	5264	Adenia Capital (III) LLC Ltd., Port Louis, Mauritius	EUR	1.0000	10.44		85,139	10,404

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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 TCU[5]	Result[4] in TCU[5]
110.	5283	Lereko Metier Solafrica Fund I Trust, Johannesburg, Republic of South Africa	ZAR	14.4570	47.50		138,122	-1,421
111.	5295	UT Bank Ltd., Accra, Ghana	GHS	4.5034	13.52		[7]	[7]
112.	5300	Latin Renewables Infrastructure Fund, L.P., Dover, USA	USD	1.0541	10.70		2,780	-381
113.	5318	Victoria South American Partners II L.P., Toronto, Canada	USD	1.0541	3.03		217,341	-80,044
114.	5321	Adobe Social Mezzanine Fund I, L.P., Montreal, Canada	USD	1.0541	24.75		7,559	-769
115.	5331	CoreCo Central America Fund I L.P., Wilmington, USA	USD	1.0541	22.00		5,461	1,446
116.	5333	Elbrus Capital Fund II, L.P., George Town, Cayman Islands	USD	1.0541	2.91		207,237	-24,348
117.	5340	Duet Vasari Beverages Africa Holdings Ltd., Road Town, British Virgin Islands	USD	1.0541	9.35		93,786	3,411
118.	5378	Armstrong S.E. Asia Clean Energy Fund L.P., Singapore	USD	1.0541	7.54		81,123	-3,040
119.	5386	Archimedes Health Developments Ltd., Limassol, Cyprus	USD	1.0541	19.23		[7]	[7]
120.	5387	BCR Investment Company Ltd., Port Louis, Mauritius	USD	1.0541	15.63		27,465	1,794
121.	5388	AGF Latin America L.P., London, UK	USD	1.0541	7.21		32,114	5,618
122.	5405	ALAOF Brasil Infra Holdings Fundo de Investimentos em Participacoes, São Paulo, Brazil	BRL	3.4326	15.65		[7]	[7]
123.	5413	ZEP-RE (PTA Reinsurance Company), Nairobi, Kenya	USD	1.0541	14.93		169,683	19,961
124.	5416	Union Agriculture Group Corp., Tortola, British Virgin Islands	USD	1.0541	4.04		[7]	[7]
125.	5434	African Development Partners II L.P., St. Peter Port, Guernsey	USD	1.0541	3.44		134,905	-20,415
126.	5442	Banyan Tree Growth Capital – II, LLC, Port Louis, Mauritius	USD	1.0541	13.94		77,521	-2,550
127.	5443	Altra Private Equity Fund II L.P., Grand Cayman, Cayman Islands	USD	1.0541	3.88		172,103	-18,521
128.	5459	Falcon House Partners Indonesia Fund I, George Town, Cayman Islands	USD	1.0541	9.33		153,800	0
129.	5460	Lombard Asia IV L.P., George Town, Cayman Islands	USD	1.0541	5.57		160,242	14,918
130.	5478	Schulze Global Ethiopia Growth and Transformation Fund I, L.P., George Town, Cayman Islands	USD	1.0541	6.22		21,969	3,623
131.	5481	SAP I Brazil Aiv 3, L.P., Toronto, Canada	USD	1.0541	8.46		31,442	-20,583
132.	5482	VSAP II Brazil Aiv 2, L.P., Toronto, Canada	USD	1.0541	9.29		217,341	-80,044
133.	5484	Parque Eólico la Carabina I, S.A.P.I. de C.V., Mexico D.F., Mexico	MXN	21.7759	17.86		-73,554	-73,841
134.	5485	Parque Eólico la Carabina II, S.A.P.I. de C.V., Mexico D.F., Mexico	MXN	21.7759	17.86		-72,288	-72,226
135.	5486	Parque Eólico el Mezquite, S.A.P.I. de C.V., Mexico D.F., Mexico	MXN	21.7759	17.86		-93,842	-93,711

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 TCU[5]	Result[4] in TCU[5]
136.	5487	Parque Eólico Dominica, S.A.P.I. de C.V., Mexico D.F., Mexico	MXN	21.7759	17.90		116,775	1,045
137.	5492	Softlogic Life Insurance PLC, Colombo, Sri Lanka	LKR	157.9865	19.00		2,223,324	924,309
138.	5493	Paraguay Agricultural Corporation S.A., Luxembourg	EUR	1.0000	15.83		554,968,859	2,704,648
139.	5505	ADP Enterprises W.L.L., Manama, Bahrain	BHD	0.3977	23.26		156,202	-29,368
140.	5506	CGFT Capital Pooling GmbH & Co. KG, Berlin, Germany	EUR	1.0000	40.00		-38	24
141.	5515	MGM Sustainable Energy Fund L.P., Toronto, Canada	USD	1.0541	15.82		5,954	-1,810
142.	5532	The Enterprise Expansion Fund, S.A. SICAV-SIF, Luxembourg	EUR	1.0000	10.31		1,641	-213
143.	5533	Takura II Feeder Fund Partnership, Cape Town, Republic of South Africa	USD	1.0541	25.00		18,708	-1,996
144.	5537	Uttam Galva Metallics Ltd., Mumbai, India	INR	71.5935	9.40		20,077,100	700
145.	5569	Portland Caribbean Fund II, L.P., George Town, Cayman Islands	USD	1.0541	15.38		23,301	1,424
146.	5573	CapMan Russia II Fund L.P., St. Peter Port, Guernsey	EUR	1.0000	12.57		8,174	-1,957
147.	5577	Oragroup S. A., Lome, Togo	XOF	655.9570	3.27		103,018	7,972
148.	5583	ACON Latin America Opportunities Fund IV-A, L.P., Toronto, Canada	USD	1.0541	39.90		27,251	470
149.	5587	Navegar I, L.P., George Town, Cayman Islands	USD	1.0541	13.23		76,720	14,378
150.	5597	Mediterrania Capital II (SICAV) P.L.C., Qormi, Malta	EUR	1.0000	10.44		56,873	-2,795
151.	5604	Quadria Capital Fund L.P., George Town, Cayman Islands	USD	1.0541	8.33		76,377	-8,970
152.	5608	Bodesa S.A.P.I. de C.V., Villa De Alvarez, Mexico	MXN	21.7759	15.89		965,888	96,395
153.	5622	Lovcen Banka AD, Podgorica, Montenegro	EUR	1.0000	28.05		5,849	-1,760
154.	5627	LeapFrog Financial Inclusion Fund II, L.P., Ebene, Mauritius	USD	1.0541	5.00		185,533	-16,718
155.	5631	Multi Financial Group Inc., Panama City, Panama	USD	1.0541	7.00		155,287	50,141
156.	5644	Berkeley Energy Netherlands Holding B.V., Amsterdam, Netherlands	EUR	1.0000	15.00		[7]	[7]
157.	5647	AEP China Hydro, Ltd., Ebene, Mauritius	USD	1.0541	17.46		140,867	-20,650
158.	5661	Grassland Finance Ltd., Hong Kong	HKD	8.1751	24.95		448,199	-26,371
159.	5713	Orilus Investment Holdings Pte. Ltd., Singapore	USD	1.0541	32.98		54,302	6,420
160.	5715	Frontier Bangladesh II L.P., Grand Cayman, Cayman Islands	USD	1.0541	19.23		153	-1,635
161.	5718	Asia Environmental Partners II.L.P., Grand Cayman, Cayman Islands	USD	1.0541	8.28		80,920	-710
162.	5720	Kua Mex Foods, S. A. P. I. de C. V., Mexico D.F., Mexico	MXN	21.7759	16.42		[7]	[7]
163.	5721	Soleq Holdings, George Town, Cayman Islands	USD	1.0541	6.82		[7]	[7]

Information on DEG's investment holdings 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 TCU[5]	Result[4] in TCU[5]
164.	5734	Euromena III Ltd. Partnership, London, UK	USD	1.0541	9.00		30,034	-2,248
165.	5745	Lereko Metier REIPPP Fund Trust, Sandhurst, Republic of South Africa	ZAR	14.4570	32.63		8,859	-824
166.	5749	Investec Africa Private Equity Fund 2 L.P., St. Peter Port, Guernsey	USD	1.0541	8.48		63,282	-5,930
167.	5770	Malacca Trust Pte. Ltd., Singapore	IDR	14208.7800	13.47		109,301,908	7,563,304
168.	5793	The Kibo Fund II LLC, Ebene, Mauritius	USD	1.0541	21.70		9,609	-1,185
169.	5797	AfricInvest Fund III, Port Louis, Mauritius	EUR	1.0000	5.20		56,587	-5,401
170.	5816	Energon Holdings, George Town, Cayman Islands	USD	1.0541	10.50		[7]	[7]
171.	5837	Aavishkaar Frontier Fund, Ebene, Mauritius	USD	1.0541	22.22		1,007	-1,243
172.	5847	ICE TopCo Ltd. S.A., Luxembourg	EUR	1.0000	6.04		191,358	52,172
173.	5860	Abraaj North Africa Fund II L.P., London, UK	USD	1.0541	4.27		145,275	14,833
174.	5878	Creed Healthcare Holdco Ltd., Valletta, Malta	USD	1.0541	7.50		[7]	[7]
175.	5912	Gaja Capital Fund II Ltd., Port Louis, Mauritius	USD	1.0541	7.89		64	-4,703
176.	5935	Kibele B.V., Amsterdam, Netherlands	USD	1.0541	22.25		1,506	-24,532
177.	5942	Emerald Sri Lanka Fund I Ltd., Port Louis, Mauritius	USD	1.0541	23.53		-492	-1,464
178.	5979	Metier Capital Growth Fund II Partnership, Sandhurst, Republic of South Africa	ZAR	14.4570	16.43		628,821	-34,320
179.	5998	Tournai Investments S.L., Barcelona, Spain	USD	1.0541	15.38		46,154	5,083
180.	6001	Equitas Holdings Ltd., Chennai, India	INR	71.5935	4.34		9,615,058	21,163
181.	6014	HydroChile Holdings, George Town, Cayman Islands	CLP	705.8350	10.40		[7]	[7]
182.	6038	Kandeo Fund II (A) L.P., Toronto, Canada	USD	1.0541	17.94		3,630	-606
183.	6039	Surfline Communications Ltd., Accra, Ghana	GHC	13.066.37	4.25		[7]	[7]
184.	6042	AIIF2 Towers Mauritius Ltd., Port Louis, Mauritius	USD	1.0541	16.10		155,759	27,126
185.	6047	VI (Vietnam Investments) Fund III, L.P., George Town, Cayman Islands	USD	1.0541	9.35		3,096	-2,496
186.	6048	Medisia Investment Holdings Pte Ltd., Singapore	USD	1.0541	32.65		40,050	-1,252
187.	6052	Abraaj Africa Fund III L.P., George Town, Cayman Islands	USD	1.0541	3.03		52,473	-11,048
188.	6076	Equis Direct Investment Fund, L.P., George Town, Cayman Islands	USD	1.0541	2.68		220,657	58,997
189.	6086	Aqua Agro Fundo de Investimento em Participações, São Paulo, Brazil	BRL	3.4326	30.44		[6]	[6]
190.	6100	Americas Energy Fund II Clean Energy Ltd. Partnership, Toronto, Canada	USD	1.0541	17.14		27,262	-606
191.	6129	Navegar II (Netherlands) B.V., Amsterdam, Netherlands	USD	1.0541	29.17		45,754	4,692
192.	6157	Vantage Mezzanine III Pan African Sub-Fund Partnership, Johannesburg, Republic of South Africa	USD	1.0541	7.82		215	-2,519

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 TCU[5]	Result[4] in TCU[5]
193.	6159	Vantage Mezzanine III Southern African Sub-Fund Partnership, Johannesburg, Republic of South Africa	ZAR	14.4570	11.42		161,638	-22,817
194.	6173	ACON Retail MXD, L.P., Toronto, Canada	USD	1.0541	100.00		22,554	-1,527
195.	6173.1	Grupo Vizion Lerma, S.A.P.I. de C.V. Mexico	USD	1.0541		6.30	[7]	[7]
196.	6176	Equis DFI Feeder, L.P., George Town, Cayman Islands	USD	1.0541	37.00		3,527	-1,004
197.	6200	Qalaa Holdings PLC, Cairo, Egypt	EGP	19.1208	0.85		8,383,326	-299,299
198.	6216	Stratus Capital Partners B L.P., Edinburgh, UK	USD	1.0541	73.31		4,702	-3,665
199.	6216.1	Stratus Group – Stratus Capital Partners (SCP), Edinburgh, UK	USD	1.0541		12.51	79	1,269
200.	6232	Taxim Capital Partners I L.P., Jersey	EUR	1.0000	9.57		[6]	[6]
201.	6238	Cambodia-Laos-Myanmar Development Fund II L.P., Singapore	USD	1.0541	15.54		[6]	[6]
202.	6240	Pembani Remgro Infrastructure Mauritius Fund I L.P., Ebene, Mauritius	USD	1.0541	10.35		66,923	4,846
203.	6250	Mobisol GmbH, Berlin, Germany	EUR	1.0000	7.12		[6]	[6]
204.	6261	Falcon House Partners Fund II, L.P., George Town, Cayman Islands	USD	1.0541	4.78		20,193	-896
205.	6317	Deep Catch Namibia Holdings (Proprietary) Ltd., Windhoek, Namibia	NAD	14.7902	30.00		[6]	[6]
206.	6321	Azure Power Global Ltd., Ebene, Mauritius	USD	1.0541	0.01		[7]	[7]
207.	6323	ECP Africa Fund IV LLC, Ebene, Mauritius	USD	1.0541	15.39		[6]	[6]
208.	6347	Principle Capital Fund IV L.P., George Town, Cayman Islands	USD	1.0541	17.62		[6]	[6]
209.	6395	MC II Pasta Ltd., Qormi, Malta	EUR	1.0000	36.14		[6]	[6]
210.	6397	AFIG Fund II, L.P., Port Louis, Mauritius	USD	1.0541	10.60		[6]	[6]
211.	6398	Agribusiness Latin America Fund II L.P., Toronto, Canada	USD	1.0541	27.03		[6]	[6]
212.	6399	Adenia Capital (IV) L.P., Port Louis, Mauritius	EUR	1.0000	9.73		[6]	[6]
213.	6401	Apis Growth 2 Ltd., Ebene, Mauritius	USD	1.0541	28.44		[6]	[6]
214.	6428	Africa Bovine Ltd., Ebene, Mauritius	USD	1.0541	11.39		[6]	[6]
215.	6431	Whitlam Holding Pte. Ltd., Singapore	USD	1.0541	38.74		[6]	[6]
216.	6450	PT Bank Victoria International Tbk., Jakarta, Indonesia	IDR	14208.7800	9.00		2,115,737,371	119,438,260
217.	6452	Catalyst MENA Clean Energy Fund L.P., St. Peter Port, Guernsey	USD	1.0541	23.31		[6]	[6]
218.	6470	ADP II Holding 6 W.L.L., Manama, Bahrain	BHD	0.3977	16.67		[6]	[6]
219.	6476	New Forests Company Holdings I Ltd., Port Louis, Mauritius	USD	1.0541	16.67		[7]	[7]
220.	6531	Dolce M8 Holdco Ltd., Port Louis, Mauritius	USD	1.0541	12.50		[6]	[6]

[1] ISO currency code.

[2] CU – currency unit in local currency.

[3] Equity as per HGB Article 266, Section 3 & 272.

[4] Result as per HGB Article 275, Section 2 & 3.

[5] TCU = 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
German Federal Ministry for Economic Cooperation and Development,
Berlin

Dr Norbert Kloppenburg
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Member of the Board of Managing Directors, KfW,
Frankfurt am Main

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Attendorn

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German Federal Ministry of Finance,
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Frankfurt am Main

Stephan Steinlein
State Secretary Federal Foreign Office,
Berlin

Brigitte Zypries
German Federal Minister for Economic Affairs and Energy,
Berlin
(until 26 January 2017)

Management Board

Philipp Kreutz

Christiane Laibach

Bruno Wenn (Chairman)

Cologne, 13 February 2017

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH

The Management Board
Laibach Kreutz Wenn

AUDITOR'S REPORT

We have audited the annual financial statements – consisting of balance sheet, profit and loss account and appendix – including the accounting system and the Management Report of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, for the financial year from 1 January to 31 December 2016. The company's Management Board bears responsibility for keeping the books and records and preparing the annual financial statements and the Management Report in compliance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the articles of association. Our task is to provide an opinion, based on our audit, on the annual statements of accounts, including the accounting system, and on the Management Report.

We conducted our audit of the annual financial statements in accordance with HGB Article 317 and in compliance with the German standards for audits of financial statements established by Institut der Wirtschafsprüfer (German Institute of Public Auditors IDW). Those standards require that we plan and perform the audit with reasonable assurance of detecting any material misstatements and infringements with a substantial impact on the presentation of the net worth, financial and earnings situation, either in the annual financial statements as prepared in accordance with German accounting principles, or in the Management Report. The audit procedures adopted take account of information about the company's business activities and its economic and legal environment, as well as of expectations relating to possible errors. The effectiveness of the accounting-related internal control system and the evidence supporting the entries in books and records, the annual financial statements and the Management Report are largely examined on the basis of spot checks. The audit includes an evaluation of the accounting principles applied and of the main assessments made by the Management Board as well as an appraisal of the overall presentation of the annual financial statements and the Management Report. We are of the opinion that our audit provides a sufficiently sound basis for our evaluation.

Our audit has not given rise to any objections.

In our judgment, based on the audit findings, the annual financial statements comply with the statutory regulations and the supplementary provisions in the articles of association and give a true and fair view of the net worth, financial and earnings situation of the company in accordance with German accounting principles. The Management Report conforms to the annual financial statements, complies with statutory requirements, provides an accurate understanding of the company's situation overall, and presents an accurate picture of the opportunities and risks of future development.

Düsseldorf, 16 February 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Helke	Lehnen
Auditor	Auditor

Imprint

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DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH
Kämmergasse 22
50676 Cologne, Germany
Box 100961, 50449 Cologne, Germany
Phone +49 221 4986-0
Fax +49 221 4986-1290

info@deginvest.de
www.deginvest.de

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DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH
Kämmergasse 22
50676 Cologne, Germany
Phone +49 221 4986-0
Fax +49 221 4986-1290
info@deginvest.de
www.deginvest.de