Annual Report 2014

Financial Statements and Management Report

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

KFW DEG

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»» DEG at a glance

EUR million	2014	2013
Finance		
Total financial commitments in financial year/new business	1,473	1,450
Portfolio (commitment obligation) at year end	7,771	6,783
of which trust business	55	60
Total investments of co-financed enterprises at year end/new business	9,285	8,287
Consultancy and other services		
Income from consultancy services, trust business and other services	15	14
Annual statements of accounts		
Balance sheet total	5,318	4,785
Subscribed capital	750	750
of which paid in	628	628
Reserves	1,274	1,198
Operating result before provisions for risk and valuation effects from currency	301	221
Taxes	15	34
Profit for the financial year	164	78
Withdrawal from purpose-tied reserve fund	5	3
Net income	169	82
Developmental impacts/new business		
Tax revenue p.a.	663	812
Net foreign exchange income p.a.	4,200	2,973
Newly created and secured jobs (number)	843,000	970,000
direct	190,000	240,000
indirect	653,000	730,000

››› Report by the Supervisory Board

Yet again, the economic climate in 2014 proved challenging for DEG. World economic growth was ultimately more moderate than expected, although at 2.6% it marginally exceeded the previous year's rate. Stronger momentum for growth came especially from industrialised nations like the USA, Germany and the UK. In the USA, the positive economic development and the monetary policy U-turn resulted in a sustained strengthening of the US dollar. At the same time, the new US monetary policy triggered capital outflows in many emerging markets and developing countries, dampening growth and causing turbulence in the financial markets. Additional stress factors in some countries included weakening domestic growth impulses, structural limitations on growth, e.g. deficit-ridden infrastructure, and weak demand for imports in some industrialised nations, mainly the crisis hit eurozone countries. Areas of political tension, like the conflicts in Ukraine, Syria and Iraq, had a negative impact beyond their own borders. In all, emerging markets and developing countries recorded 4.4% growth in 2014, even lower than in 2013 (4.9%). As in previous years, DEG was successful in this climate in positioning itself with long-term finance as a reliable partner to the private sector in developing countries, in keeping with its development policy mandate. The volume of new commitments easily outstripped the EUR 1.4 billion originally planned. All strategic goals were met.

Advice to and supervision of the Management Board

In the 2014 financial year, DEG's Supervisory Board concerned itself extensively with the company's situation. It advised DEG's Management Board and supervised the proper conduct of its activity. DEG's Management Board provided the members of the Supervisory Board with regular, timely and comprehensive written and oral reports. Whenever decisions required the consent or cooperation of the Supervisory Board by law, under the Articles of Association or rules of procedure, the Supervisory Board was just as closely involved in the decision-making process as when decisions of fundamental importance to DEG were being taken. DEG's rules and regulations comply with the German Federal Public Corporate Governance Code PCGC (Public Corporate Governance Kodex des Bundes) and meet modern governance standards.

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 Audit Committee appointed from among its members, which met on four occasions. Consultations and resolutions relating to DEG's finance business formed an integral part of all the meetings of the Supervisory Board. One member of the Supervisory Board attended fewer than half the meetings in 2014.

The Supervisory Board concentrated on setting a sustainable direction for DEG's business. In the context of the Management Board's overall strategic policy, the Supervisory Board discussed business policy for 2015–2019, risk strategy including annual planning for 2015, and the medium-term business outlook for 2016–2019.

In addition, the Supervisory Board addressed important individual strategic issues such as DEG's involvement in funds.

The Supervisory Board expressly welcomes the substantial developmental impacts of the investments financed by DEG and would like to pay tribute to the fact that the previous financial year not only yielded a high volume of new commitments, but that these new commitments also achieved an overall developmental rating that exceeded expectation. The Board further gave a favourable reception to DEG's externally validated sustainability report, which covers both the sustainability of DEG's business and DEG's operational sustainability.

In this connection, the Supervisory Board also acquainted itself with DEG's new complaints management system, which was introduced jointly with FMO of the Netherlands in February 2014.

The Supervisory Board further concerned itself with measures to increase transparency. It took information on the proposed publication of new finance on DEG's website from 1 January 2015. DEG is addressing the call for more transparency with this measure.

The Supervisory Board also concerned itself with institutional issues. As of 1 July 2014, DEG's Articles of Association and the procedural rules for both the Management Board and the Supervisory Board and its committees were brought into line with the newly established provisions of Article §25d of the German Banking Act (Kreditwesengesetz KWG). This involved adding to the Executive Committee's tasks as listed in the procedural rules for the Supervisory Board and its committees, to take account of the corresponding task list in the regulations under Article §25d sections 11 & 12 of the German Banking Act. In addition to its existing responsibilities, the Executive Committee will consequently also serve as Supervisory Nomination and Remuneration Committee. Pursuant to Article §25d section 9 clause 4 of the Banking Act, the procedural rules for the Management Board were amended to enshrine an immediate right of access for the Chair of the Supervisory Board's Audit Committee to the Head of Internal Audit, the Head of Risk Controlling, and the Compliance Officer.

In December 2014, DEG also agreed to establish a Loans Committee with effect from 1 January 2015. In connection with setting up the committee, changes were made to DEG's Articles of Association as well as to the procedural rules of the Supervisory Board and its committees.

The Supervisory Board's self-evaluation, previously biannual, will now be carried out annually. In future, the Supervisory Board will additionally conduct an annual evaluation of the Management Board. For 2014, both evaluations were undertaken based on structured questionnaires. The survey showed that the work and efficiency of the Supervisory Board as a whole, the board's committees and the Management Board, achieved a favourable rating from the members of the Supervisory Board.

Annual statements of accounts and Management Report

KPMG AG Wirtschaftsprüfungsgesellschaft of Düsseldorf has audited both the annual statements of accounts, as drawn up in accordance with statutory regulations, and the management report. The report on the annual statements of accounts was awarded an unqualified audit certificate.

On the basis of the auditor's report, the Audit Committee appointed by the Supervisory Board reviewed and discussed the annual statements of accounts 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 statements of accounts, including the management report.

The Supervisory Board recommended that the Shareholders' Meeting adopt the annual statements of accounts for 2014 and discharge the Management Board from its liabilities.

Changes in membership of the Supervisory Board

Following the departure of Gudrun Kopp (Parliamentary State Secretary PSS), Hartmut Koschyk (PSS), Prof. Dr Harald Braun (State Secretary), and Ernst Burgbacher (PSS), the Supervisory Board met for the first time in its new composition on 26 March 2014. Grateful thanks are due to the above-mentioned members for their valued cooperation and energetic support for the company. The new members of DEG's Supervisory Board are Brigitte Zypries, (PSS), Hans-Joachim Fuchtel, (PSS), Dr Michael Meister (PSS) and Stephan Steinlein (State Secretary).

In view of the departure of its previous Chairwoman, PSS Gudrun Kopp, the Supervisory Board elected a new chair from among its members during its first session following the changes. Parliamentary State Secretary Hans-Joachim Fuchtel was chosen as the new Chairman of DEG's Supervisory Board with a single abstention and all votes cast. Dr Norbert Kloppenburg and Corinna Linner retain their positions and First and Second Deputy Chairman and Chairwoman respectively.

At the same meeting, DEG's Supervisory Board appointed State Secretary Stephan Steinlein as alternate member of the Executive Committee.

Also on the 26 March 2014, DEG's Supervisory Board recommended that the Shareholders' Meeting appoint Christiane Laibach as a member of the Management Board for a term of five years with effect from 15 February 2015 and approved the agreement between DEG and Dr Michael Bornmann in respect of his departure from DEG's Management Board as of 14 February 2015.

Bruno Wenn, who has held the post of Chairman of DEG's Management Board since 1 October 2009, began a further five-year period of office on 1 October 2014.

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 capabilities have once again made it possible to achieve an outstanding result for DEG.

The Supervisory Board would like to express special thanks to Dr Michael Bornmann, who is leaving his post and retiring after ten years as an Executive Director at DEG. Special recognition is due to his involvement on DEG's behalf in the risk capital business, in DEG's entry into the insurance business, in the initiation of such innovative projects as, e.g. "Cotton Made in Africa", and in the expansion of German business and programme finance. The areas promoted by Dr Bornmann will continue to be of major importance to DEG. The Supervisory Board would like to express its profound gratitude to Dr Bornmann for his unfailingly committed, effective and concentrated effort on behalf of a DEG that is successful and fit for the future.

The Supervisory Board is confident that DEG will continue to build on its favourable position and succeed in doing justice to its role as Europe's largest development finance institution during the developmentally crucial year post-2015. The Supervisory Board will do all in its power to support the company in this endeavour in the future.

Cologne, 23 March 2015

Chairman of the Supervisory Board
Hans-Joachim Fuchtel

››› Corporate Governance Report 2014

As a member of KfW Bankengruppe, DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) has made a commitment to act responsibly and transparently, and open up its actions to scrutiny. The Management Board and the Supervisory Board of DEG accept the principles of the German Federal Government's Public Corporate Governance Code (PCGC) on behalf of DEG. A first Declaration of Conformity in respect of compliance with the PCGC's recommendations was made on 30 March 2011. A declaration and explanation of any departures from the code has been made annually since then.

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.

On 1 January 2014 the changes to the German Banking Act (KWG) provided for in the Transparency Directive Implementation Act (CRD IV) came into force. Due to its certificate of exemption, DEG is not required to comply with KWG Articles 25–38. However, DEG's rules and regulations have been voluntarily amended to bring them into line with the newly framed provisions of Article 25d of the Banking Act.

DEG's Articles of Association, the rules of procedure for the Management Board and the rules of procedure for the Supervisory Board and its committees have been revised accordingly. The new version came into force on 1 July 2014.

Declaration of Conformity

The Management Board and the Supervisory Board of DEG make the following declaration: "Since the last Declaration of Conformity on 26 March 2014, the recommendations of the Federal Government's PCGC, passed 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 sub-paragraph 3.3.2 of the PCGC, these merely include an option to introduce a deductible. 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.

Delegation to committees

The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from greater familiarity with the issues and flexibility of scheduling. Where a matter cannot be referred to the Supervisory Board in cases under Article 10 Section 5 no. 4 of the Articles of Association (measures and transactions of special importance) because a quick decision is required, the Executive Committee is empowered to decide in place of the Supervisory Board in an individual case under Article 10 Section 8 of the Articles and in departure from the recommendations in sub-paragraph 5.1.8 of the code. This prevents the company suffering any economic disadvantage due to an extended delay in such cases. The option did not come into play in 2014.

Responsibilities

With the agreement of the Supervisory Board and the shareholder, the Management Board has compiled a set of procedural rules relating to 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 is designed to ensure the necessary flexibility when changes are required, and hence an efficient division of labour.

Loans to members of corporate bodies

Under the rules of procedure for DEG's Supervisory Board and its committees, as well as for the Management Board, DEG is not permitted to grant individual loans to members of its Management and Supervisory Boards. However, to ensure equal treatment and in a departure from sub-paragraph 3.4 of the code, this ban does not apply to taking advantage of promotional loans made available through KfW programmes. Given the principle of delivery via the borrowers' banks, and because the granting of these loans has been standardised, these programme loans present no risk of conflicts of interest.

Cooperation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work closely together for the benefit of DEG. The Management Board, especially its Chairman, maintains regular contact with the Chairman of the Supervisory Board. The Management Board discusses significant issues of corporate governance and strategy with the Supervisory Board. If an important cause arises, the Chairwoman or Chairman of the Supervisory Board informs the board and calls an extraordinary meeting if necessary.

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 changes to the economic climate that were of significance to the company.

Management Board

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

In the year under review, the members of DEG's Management Board had the following areas of responsibility:

Bruno Wenn as Chairman of the Management Board:
- Corporate Management Division,
- Regions Division 1: Africa/Latin America,
- Sectors Division,
- Treasury,
- Internal Audit.

Dr Michael Bornmann:
- Regions Division 2: Asia/Europe (excluding Treasury),
- German Corporates/Programme finance,
- Legal and Compliance Division.

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

The members of the Management Board are committed to DEG's corporate interest, may not pursue their personal interests in decision-making, and are subject to a comprehensive non-compete obligation while 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 advises and monitors the Management Board as it manages DEG.

DEG has a voluntary Supervisory Board. Its membership is made up of representatives of the German Federal Government, the shareholder, the private sector, and civilian society.

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 Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign office and the Federal Ministry of Economic Affairs and Energy – and two shall be representatives of KfW. The Chair of the Supervisory Board rests with the representative of the Federal Ministry for Economic Cooperation and Development. In the year under review, Parliamentary State Secretary Hans-Joachim Fuchtel held the office of Chairman. The Supervisory Board had two female members in the year under review.

At no time shall the Supervisory Board include more than two former members of the company's Management Board. Under a provision in force until 30 June 2014 no one already exercising five supervision mandates with an enterprise being supervised by the German Federal Financial Supervisory Authority was allowed to be appointed as a member of the Supervisory Board. Under a new provision which came into force on 1 July 2014, no person shall be appointed as a member of the Supervisory Board if they already serve as executive officer in another business and are also a member of either the management or supervisory body of more than two further businesses, or if they are already a member of either the management or supervisory body of more than three other businesses. The members proposed by the German Federal Government shall as a rule not exercise more than three mandates in supervisory bodies at any one time. Any conflicts of interest shall be disclosed to the Supervisory Board. During the year under review, there was one case in which conflicts of interest prevented participation in decisions of the Supervisory Board or its committees respectively.

One member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board in the year under review.

Committees of the Supervisory Board

In order to achieve efficiency in carrying out its tasks, the Supervisory Board has formed two committees. Pursuant to Article 25d of the Banking Act, their areas of responsibility were expanded with effect from 1 July 2014.

The Executive Committee is responsible for personnel matters and the principles of corporate governance as well as – where necessary – preparing for meetings of the Supervisory Board; it also takes pressing decisions on urgent matters. In addition, it deals with remuneration issues.

The Audit Committee is responsible for issues relating to accounting, risk management, the effectiveness of the internal control system and internal audit, as well as for preparations for assigning the auditors and setting priorities for the annual audit.

The committee chairs report regularly to the Supervisory Board. The Supervisory Board is entitled to reclaim the competences transferred to the committees 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 statements of accounts 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. 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 (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. However, 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

Under Article 2 (1) of its Articles of Association, DEG exclusively and directly serves the public benefit purpose of promoting development cooperation as per Article 52 of the German Fiscal Code (AO). It operates altruistically within the meaning of AO Article 55.

Transparency

DEG makes key information about the company and its annual statements of accounts 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.

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 capacity. This ensures that

DEG is able to maintain an acceptable risk profile while fulfilling its special tasks sustainably and over the long term. 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, clients, business partners, staff members and the public place in its effectiveness and especially its integrity. This trust is rooted, in part at least, in the implementation of, and compliance with, the relevant legal and regulatory requirements and internal rules as well as other applicable laws and regulations. DEG's compliance organisation includes, in particular, provisions to ensure that data protection rules are followed, to guarantee securities compliance and prevent money laundering, the financing of terrorism and other criminal activities. Accordingly, there are binding regulations and procedures that influence day-to-day values and corporate culture; these are continuously updated to reflect the legal framework as well as market requirements. The tasks that fall under compliance also include regulatory compliance. Regular training on all aspects of compliance is available to DEG employees.

Accounting and annual audit

On 1 April 2014 DEG's shareholder appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2014 financial year. The Supervisory Board subsequently issued the audit mandate to KPMG on 1 September 2014 and established the priorities for the audit with the auditor. An agreement was reached 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 as the audit was being carried out. It was further agreed that the auditor should inform the Supervisory Board or include a note in the audit if facts were ascertained in the course of the audit which meant that the declaration of conformity with the PCGC contained an inaccuracy.

Efficiency review of the Supervisory Board

The Supervisory Board has to date regularly reviewed the efficiency of its activities. A two-year cycle had been agreed for these reviews. The most recent efficiency review of the Supervisory Board was carried out in 2013. Since voluntary compliance with the provisions of KWG Article 25d Section 11 became permissible as of 1 July 2014, the Supervisory Board now carries out an annual evaluation of both the Supervisory and Management Boards. The analysis of the evaluation of the Supervisory and Management Boards will be completed in the first quarter of 2015.

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 statements of accounts.

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 26 March 2014 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 the meeting of targets, is immediately paid to the Management Board; the other half only constitutes a provisional claim and is paid from a "bonus account" in equal instalments over the following three years, provided business

Compensation for the Management Board and members of the Supervisory Board

EUR thousand	2014	2013	Change
Management Board	1,318	1,317	1
Previous members of the Management Board & surviving dependants	761	744	17
Members of the Supervisory Board	21	11	10
Total	**2,100**	**2,072**	**28**

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 broken down by fixed and variable components and benefits in kind, as well as transfers to pension provision for individual members of the Management Board and the balance of their bonus accounts.

Responsibility

The shareholder discusses 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 most recently reviewed in March 2014.

Benefits in kind

Benefits in kind primarily include contractual fringe benefits. Members of the Management Board are entitled to a company car and driver for both business and personal use. In new contracts, the entitlement to a driver is no longer part of the contractual agreement. Under current tax regulations, any costs incurred as a result of personal use of the company car and driver 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 and long-term care insurances are subsidised. In respect of the risks associated with their management activities on the governing bodies, 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.

At present, no deductible has been agreed. Members of DEG's Management 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.

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 costs 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.

Annual compensation of members of the Management Board and transfers to pension provision for 2013 and 2014

EUR thousand[1]		Salary	Variable compensation	Benefits in kind[2]	**Total**	Bonus account	Transfers to pension provision
Bruno Wenn (Chairman)	2014	344.9	77.6	14.1	**436.6**	77.2	168.1
	2013	340.7	66.9	19.1	**426.7**	80.2	252.4
Dr Michael Bornmann	2014	344.9	78.9	23.5	**447.3**	79.4	147.6
	2013	340.7	67.5	28.8	**437.0**	80.8	285.9
Philipp Kreutz	2014	344.9	77.3	12.0	**434.2**	76.9	173.9
	2013	340.7	66.7	45.6[3]	**453.0**	80.0	350.2
Total	**2014**	**1.034.8**	**233.7**	**49.6**	**1.318.2**	**233.5**	**489.6**
	2013	**1.022.1**	**201.1**	**93.5**	**1.316.8**	**241.0**	**888.5**

[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 previous year's figures have been amended accordingly to provide a better basis for comparison. The total for 2014 is EUR 33.8 thousand (previous year EUR 32.9 thousand).

[3] Includes a one-off payment relating to a long-service award.

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

	Number 2014	EUR thousand 2014	Number 2013	EUR thousand 2013
Former members of the Management Board	5	551.5	5	**538.9**
Surviving dependants	3	209.8	3	**204.8**
Total	**8**	**761.3**	**8**	**743.7**

In 2014 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 the Articles of Association of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, the appointment of a member of the Management Board shall not extend beyond the attainment of statutory retirement age. After they reach the age of 65 or the statutory retirement age respectively, and following expiry of their contract of employment as executive directors, members of the Management Board are entitled to pension payments. This also applies if their service ends due to invalidity.

For contracts of employment for a term beginning 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 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). The provisions of PCGC are taken into account in drawing up contracts of employment for executive directors.

Where members of the Management Board were appointed or reappointed as executive directors after 2011, a cap on any severance package has been included in their contracts of employment 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 executive director without important cause as per Article 626 of the German Civil Code, will accordingly be limited to double the annual salary or compensation, including fringe benefits, due for the remaining period of his or her contract, 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.

Pension payments to former members of the Management Board and surviving dependants for 2013 and 2014 were EUR 743.7 thousand and EUR 761.3 thousand respectively.

EUR 398.9 thousand were transferred in respect of pension obligations towards former members of the Management Board and their surviving dependants as at the end of the financial year (previous year: EUR 72.7 thousand).

No loans were provided to former members of the Management Board or their surviving dependants in the 2014 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.

The level of compensation for members of the Supervisory Board and its committees was newly set with effect from 1 January 2014. 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 only covers 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.

As of 1 July 2011, representatives of KfW serving on DEG's Supervisory Board have declined to claim remuneration and attendance fees. This is in accordance with a fundamental and open-ended decision by the Supervisory Board of KfW.

The following tables provide details of the Supervisory Board's remuneration for the 2013 and 2014 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 personally.

In respect of the risks associated with their activities as officers of the Supervisory Board, 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, 23 March 2015

Management Board Supervisory Board

Compensation of members of the Supervisory Board for the 2013 and 2014 financial years

EUR

No.	Name	Period of membership 2014	Supervisory Board membership	Committee member	Daily allowance and attendance fee	Total
1.	Hans-Joachim Fuchtel [1]	18 Feb.–31 Dec.	-	-	-	-
2.	Dr Norbert Kloppenburg [1]	1 Jan.–31 Dec.	-	-	-	-
3.	Dr Harald Braun [2]	1 Jan.–20 Jan.	-	-	-	-
4.	Eberhard Brandes [3]	1 Jan.–31 Dec.	5,000	-	-	**5,000**
5.	Arndt G. Kirchhoff	1 Jan.–31 Dec.	5,000	-	512	**5,512**
6.	Hartmut Koschyk [1]	1 Jan.–29 Jan.	-	-	-	-
7.	Corinna Linner	1 Jan.–31 Dec.	8,000	1,000	4,072	**13,072**
8.	Dr Michael Meister [1]	14 Feb.–31 Dec.	-	-	-	-
9.	Dr Ulrich Schröder [1]	1 Jan.–31 Dec.	-	-	-	-
10.	Stephan Steinlein [1]	18 Feb.–31 Dec.	-	-	-	-
11.	Brigitte Zypries [1]	24 Feb.–31 Dec.	-	-	-	-
Total			**18,000**	**1,000**	**4,584**	**23,584**

EUR

No.	Name	Period of membership 2013	Supervisory Board membership	Committee member	Daily allowance and attendance fee	Total
1.	Gudrun Kopp[1]	1 Jan.–23 Dec.	-	-	-	**0**
2.	Dr Norbert Kloppenburg[1]	1 Jan.–31 Dec.	-	-	-	**0**
3.	Dr Hans-Jörg Todt	1 Jan.–16 Jun.	1,169	-	62	**1,231**
4.	Dr Harald Braun[2]	1 Jan.–31 Dec.	2,045	-	86	**2,131**
5.	Eberhard Brandes[3]	1 Jan.–31 Dec.	2,045	-	-	**2,045**
6.	Ernst Burgbacher[1]	1 Jan.–17 Dec.	-	-	-	**0**
7.	Cécile Couprie[1]	1 Jan.–16 Jun.	-	-	-	**0**
8.	Arndt G. Kirchhoff	1 Jan.–31 Dec.	2,045	-	129	**2,174**
9.	Hartmut Koschyk[1]	1 Jan.–31 Dec.	-	-	-	**0**
10.	Siegmar Mosdorf	1 Jan.–16 Jun.	936	-	43	**979**
11.	Dr Ulrich Schröder[1]	1 Jan.–31 Dec.	-	-	-	**0**
12.	Prof. Dr Beatrice Weder di Mauro	1 Jan.–16 Jun.	936	-	-	**936**
13.	Corinna Linner	17 Jun.–31 Dec.	1,387	-	136	**1,523**
Total			**10,563**	**0**	**456**	**11,019**

[1] Remuneration not claimed

[2] The German federal regulation on secondary employment applies to this sum.

[3] Remuneration donated to WWF

››› Management Report 2014

CORPORATE ESSENTIALS

Business model

DEG – Deutsche Investitions- and Entwicklungsgesellschaft mbH, Cologne (DEG) promotes the private sector in developing and emerging-market countries (partner countries) within a framework of entrepreneurial development cooperation. Work and an income are essential prerequisites if people's living conditions are to be improved and poverty overcome. Entrepreneurial initiative is a key driver in achieving this; the vast majority of jobs are created in the private sector.

That is why DEG finances economically and developmentally sustainable investment schemes by private sector enterprises with loans and guarantees as well as with risk capital in the form of participating interests and loans with equity features. It addresses mainly medium-sized businesses ("Mittelstand") and small and medium-sized enterprises (SMEs) with its offerings.

As a pioneer investor, DEG enters future markets in Africa and other regions. It demonstrates that entrepreneurial commitment is possible even in difficult conditions and boosts the leverage effect of its development activities by mobilising additional private-sector capital.

Sustainable entrepreneurial success is not only determined by economic, but also by ecological and social factors. That is why DEG promotes high ecological and social standards and advises the enterprises it finances on how to implement them. Schemes of immediate benefit to the climate and the environment are a focus of DEG's activities. German enterprises can make an important contribution to development by becoming involved, and they benefit from excellent opportunities in developing and emerging-market countries. That is why DEG finances and supports the activities of German medium-sized enterprises in these countries.

As a development institution with a development policy mandate, DEG operates on the subsidiarity principle, providing finance where the market fails to offer finance 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 it generates are used to strengthen its equity capital base. This forms a crucial foundation of DEG's promotional business and its expansion.

With promotional programmes like develoPPP.de on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), DEG additionally co-finances environmentally beneficial measures by private sector enterprises. A mix of public funds and funds provided by the enterprises is used for the purpose.

DEG also carries out complementary measures using its own funds. These are designed to enhance developmental effects or configure the ecological, social and business aspects of schemes to ensure they meet the requirements for co-financing by development finance institutes.

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

As one of the leading European development finance institutes, DEG works closely with other development finance providers with the aim of jointly improving efficiency and visibility and making a greater impact. Cooperation with the members of the European Development Finance Institutions (EDFI) is a special priority. Given the growing importance of entrepreneurial development cooperation, the association is committed to improving its visibility internationally, intensifying cooperation in the context of the European Union, and further expanding the European finance partnerships through a process of standardisation and harmonisation.

Comprehensive knowledge of the economic and political conditions in partner countries, close links to clients, and a permanent local presence are necessary if the development policy mandate is to be effectively fulfilled. To achieve this, DEG maintains representative offices in thirteen locations in Africa, Asia, Latin America and Eastern Europe. It also shares the use of KfW's 70+ representative offices.

With the aim of further improving its client focus, DEG launched an initiative called "Client-centred DEG" as part of its annual strategy review in 2014. The initiative is designed to ensure DEG continues to evolve into an organisation with an even more consistent focus on its clients. Important fields of activity in addition to structures and processes are DEG's leadership and corporate culture.

Sustainability

An important condition of DEG's involvement in a proposed investment is that, in addition to being economically sustainable, any scheme it promotes must be environmentally and socially sound. Co-financed enterprises must enter into a commitment to that effect. Promoting investment schemes in developing countries offers considerable opportunities to improve the environmental and social situation locally, 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, it verifies whether human rights are being respected, fair working conditions offered, and activities carried out in an environmentally responsible way. Problematic business activities such as arms manufacturing, tobacco growing, and the conversion of forests worthy of protection are not eligible for DEG finance.

For all the proposals to which DEG committed finance in 2014, the enterprises concerned have contractually undertaken to comply with national regulations and furthermore to meet international environmental and social standards. These include the IFC performance standards (in the version revised after 2012 with input from DEG) as environmental, social and human rights standards and the core labour standards set up by the International Labor Organization (ILO).

In schemes with a potentially higher environmental and social risk, DEG again took on an important role in 2014 by agreeing environmental and social action plans with enterprises it was co-financing. Its aim was to improve the situation in the enterprises in question while also promoting the spread of international standards in its partner countries. DEG closely supported the enterprises as they implemented the requirements set down in the action plans and worked with them to solve any issues arising. DEG tracks the agreed activities and steps for the entire duration.

Environmentally responsible action also extends to DEG's own operations. In addition to the health and safety of its staff, the sparing use of resources is a priority. Despite rising staff numbers, energy, water and paper consumption in 2014 for buildings and by employees are very low, much as in the preceding year. All CO_2 emissions from managing the buildings and from business travel are offset by the purchase and retirement of emission credits as part of KfW Bankengruppe's policy of maintaining a climate neutral rating.

KfW Bankengruppe, including DEG, has achieved very good sustainability ratings from the three major agencies. At the end of 2014, KfW came fourth among 191 institutions assessed by Sustainalytics, having scored 82 out of a possible 100 points. The sustainability analysis undertaken by the imug agency rated KfW best overall among 126 national and international issuers of bank bonds. It was also awarded a prime rating by oekom Research in the group of top-rated financial institutions.

Personnel

At the end of 2014 DEG retained 503 employees (2013: 499). In addition, DEG employs three executive directors. Staff numbers broke down into 337 staff outside regular pay scales – 51 of whom are senior executives –, 152 staff on regular pay scales and 14 apprentices. They included 94 part-time employees (2013: 77). 271 members of staff (53.9%) were female (2013: 52.4%). The average age was 43.0 years (2013: 42.5). The proportion of severely disabled people was 2.4% (2013: 2.9%). 19 members of staff were employed in DEG's representative offices along with 42 local experts.

DEG's highly qualified employees are committed 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.

In order to ensure DEG's future viability in terms of staff, the business has developed a strategy-based competence model that serves as a common thread running through a range of different staff development tools. The talent management system is designed to develop staff potential in line with DEG's strategic needs.

This "Professional Development Programme" enables DEG's skilled specialists to carry out a comprehensive assessment of their current level in the profession and then achieve targeted development. Of the 15 places available in 2014, six were filled by women, including part-time employees.

The year 2014 marked the first time DEG took part in the shadowing programme offered by KfW Bankengruppe. The aim of this programme is for participants to familiarise themselves with the prospect of working at senior executive level. Participants (shadows) follow an executive (guide) for three days as they go about their everyday professional activities. The impressions gained are later discussed jointly. Three members of staff participated in this programme, two female and one male. Three divisional heads took part as guides, two male and one female.

Equality, diversity and the work/family balance are key elements of DEG's human resources policy. In 2012 DEG completed the charitable Hertie Foundation's "Work and Family Audit" programme and achieved certification for the first time. It is due to be re-audited in 2015. In 2014, adding to many tried and tested programmes on offer, the family service was expanded: An external provider now supports and advises staff members and helps them to find childcare and support for family members in need of care.

At 29.4%, the proportion of women in leadership positions was maintained in 2014 at the same high level as the previous year. The aim is to continue to increase the proportion in the years to come.

In 2014 DEG introduced a new Learning Management System designed to standardise existing training and development offerings step by step and update them by introducing more media-based learning schemes. Senior executives and specialists at DEG retain access to a comprehensive range of qualification measures, both within their special 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 (2013: EUR 1.0 million) in the measures described, which encompassed training, professional development for specialists and senior executives, and talent management.

For junior employees, DEG offers trainee programmes in the fields of finance, risk management & financial controlling, and IT. In 2014 the places went to three female and two male university graduates. DEG also continues to support initial vocational training. In 2014 five apprentices began their training at DEG: two office administrators with an additional qualification in banking administration and three cooks. For the fifth year running, DEG supported students at Cologne University with scholarships. As well as offering six national scholarships, it provides funding for three scholarships for disabled or socially disadvantaged students. For the first time, it also offered six national scholarships to attend the Cologne University of Applied Sciences.

The new remuneration system came into force in 2014. It was set out in the corporate agreements on "Salary determination and remuneration at DEG" and "Staff appraisal at DEG" adopted by the corporate partners at the end of 2013.

At the beginning of each new financial year, DEG enters into a personal goal agreement with all members of staff. The goals specified in the agreement are partly based on DEG's strategic targets.

The main element of staff remuneration remains a fixed salary consisting of thirteen monthly payments for staff outside regular pay scales. They receive a target bonus which serves as a benchmark for variable, performance- and success-related remuneration, which is payable if all performance parameters have been achieved by both the business and the member of staff. The target bonus is set as an appropriate proportion of the annual basic salary, and the effective bonus is then paid in the following 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, which similarly depends on the success of the business and on employee performance parameters. Members of DEG's Management Board receive a bonus that depends on achieving defined quantitative and qualitative targets; 50% of the bonus is paid out in stages over several years.

The following summary includes the information required under Section 16, Subsection 2, No. 3 of the German Regulation on Compensation by Financial Institutions.

DEG's social benefits include employer contributions to various corporate pension schemes, group accident insurance, and the granting of loans. 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, also for environmental reasons. Over the past twelve months, DEG has further expanded its corporate health management system and offers

Remuneration 2014

	Number of employees (number of recipients of variable remuneration)	Total fixed salaries (gross) in EUR million	Management bonus for 2014 (for performance in 2013) in EUR million	Bonus 2014 (for performance in 2013) in EUR million
Staff on regular pay scale	180[1)] (121 recipients)	7.1	-	0.5[2)]
Staff outside regular pay scale	350[1)] (332 recipients)	28.0	5.0	-
Executive directors	3	1.0	0.2	-

[1)] The number of employees includes all persons active in 2014, all who left over the course of the year, and all who were entitled to a part of the management bonus for 2013 and 2014. Recipients takes into account all members of staff who received variable remuneration in 2014 due to having achieved the agreed performance targets.

[2)] From 2014 (new company agreement), the bonus amount includes the guaranteed bonus of one half of monthly salary plus a possible variable bonus.

a wide range of preventative health measures, e.g. courses on becoming more active and on relaxation, yoga and chi kung courses, corporate sports groups, etc.

The Management Board would like to express its gratitude to all members of staff for their exceptionally dedicated and highly motivated service. They made a very significant contribution to DEG's outstanding success in fulfilling its mandate and meeting its ambitious corporate 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 very constructive.

ECONOMIC REPORT

Business environment

World economic growth in 2014 was more moderate than expected at 2.6%. The previous year's growth at 2.5% was easily exceeded. Growth impulses came from developing countries, but also from industrialised nations such as the USA, Germany and the UK. The favourable economic development in the USA resulted in a sustained strengthening of the US dollar.

In 2014, emerging market and developing countries recorded a lower increase at 4.4% than the previous year's 4.9%. In some countries, this was due to the influence of factors such as slowing growth momentum, structural obstacles to growth (e.g. deficient infrastructure) and weak demand from some industrialised countries, above all the crisis-stricken eurozone countries. Political tensions such as the conflicts in Ukraine, Syria and Iraq had a negative impact on growth that extended beyond the borders of the countries in question.

In Asia, growth in China slowed a little, and overall, the region's economic performance lay slightly below the previous year's level. Despite regional conflicts and the Ebola epidemic in West Africa, which led to a drop in economic growth in the countries affected, economic activity in Africa actually improved slightly in 2014 compared to the previous year.

In Latin America, countries like Mexico recorded a distinct rise in GDP, although economic growth across the continent as a whole fell by almost two thirds compared to the previous year. This is due to the Brazilian economy being close to recession. Reasons included a weak domestic economy and reduced demand for raw materials from China.

As a result of the sanctions against Russia introduced in several stages by EU member states and aimed mainly at the economic and financial sectors, the devaluation of the rouble and the substantial drop in the oil price over the year, growth in the Russian economy almost stagnated[1].

In keeping with its mandate, DEG as a development finance provider becomes involved at a complementary level wherever the market fails to provide private sector enterprises with the required long-term finance altogether, or at adequate levels. This remained the case in its partner countries in 2014. DEG's task goes well beyond providing reliable finance. There was also demand for DEG's advice and support to enterprises in the fields of, e.g. corporate governance, environmental management or efficient resource use. In cooperation with other European development banks, it was able to provide additional investment capital for larger volumes of finance in 2014 as in previous years.

Business development

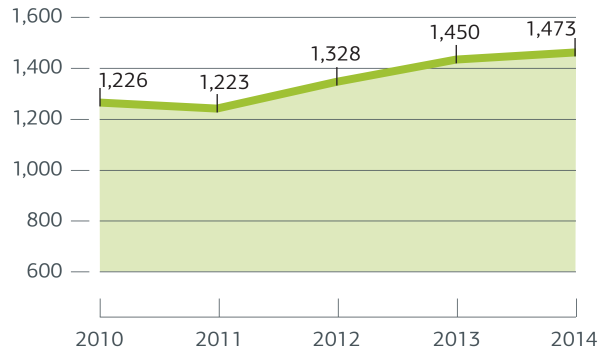
There was considerable demand for DEG's finance and arrangement services in 2014.

[1] Source: Global Economic Prospects, World Bank, January 2015

DEG was able to continue expanding its promotional business in the 2014 financial year. Financial commitments of EUR 1,473.4 million for 113 investment proposals were in line with planning and slightly exceeded the previous year's level (2013: EUR 1,450.1 million). The commitments, a key performance indicator for DEG's business operations, enabled entrepreneurial investments with a total volume of EUR 9,285.0 million (2013: EUR 8,287.4 million).

Development of annual financial commitments

EUR million



The commitment obligation (total of commitments paid out and new commitments on own account) rose in 2014 from EUR 6,166.4 million to EUR 7,053.9 million. It was distributed across 741 projects in 82 partner countries and, despite a slight rise in the lower risk classes, displayed a stable risk structure. Due above all to the strong development of the US dollar, the commitment obligation exceeded the level planned for (EUR 6,933 million) by the end of 2014. At EUR 1,199.7 million, disbursements (own business) were slightly above the previous year's EUR 1,114.3 million.

The structural targets for new business – finance for small and medium-size enterprises (SMEs), risk capital, Africa & other future markets, climate & environmental protection as well as finance for German enterprises – were all met and in most cases substantially exceeded.

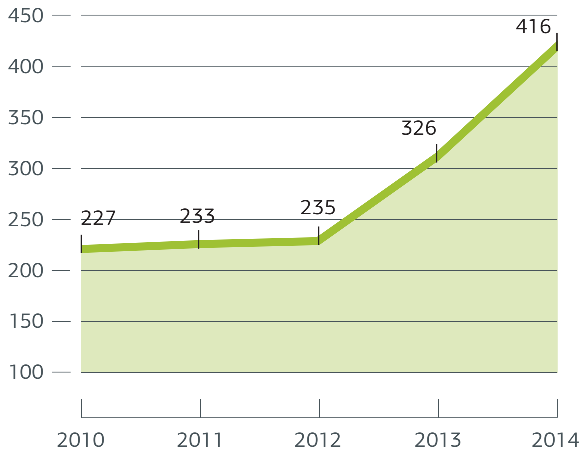
Newly committed finance for SMEs and medium-size enterprises ("Mittelstand") reached a new record in 2014 with EUR 904.7 million (2013: EUR 793.9 million).

Risk capital finance – participating interests and loans with equity features – accounted for a commitment volume of EUR 665.7 million in 2014. Again, this was well above the previous year's level (2013: 572.2 million EUR).

The development of investments in Africa and other future markets was especially gratifying. DEG committed finance in the amount of EUR 855.4 million in 2014 (2013: EUR 630.4 million). Of this, EUR 415.8 million were intended for Africa (2013: EUR 325.7 million).

New financial commitments for investments in Africa

EUR million



Of new commitments for 2014, EUR 691.4 million overall – i.e. approx. 50% – were intended for schemes promoting climate and environmental protection as well as adaptation to climate change (2013: EUR 649.0 million). New commitments for investments in climate protection reached EUR 446.2 million, almost matching the previous year's level (2013: EUR 447.7 million).

In 2014 DEG made EUR 253.0 million available to German enterprises investing in emerging market and developing countries (2013: EUR 152.3 million). In all, commitments were made to 23 proposals, compared to 14 in 2013. This rise reflects the increased interest on the part of German enterprises in the markets in emerging market and developing countries. Moreover, DEG has systematically expanded activities designed to appeal to this important client group. The commitments were for investments in manufacturing and agricultural production as well as renewables in China, Kenya and Mexico. In total, DEG reached approximately 100 German enterprises with its finance and programmes in 2014.

Financial commitments for 2014 were spread across 49 countries, the same number as in 2013. Among the least developed countries (LDC) in which DEG made funds available in 2014 were Bhutan, Cambodia, Uganda and Tanzania.

By continent, the lion's share of commitments for 2014 went to schemes in Asia with EUR 603.2 million (2013: EUR 492.0 million). With commitments of EUR 415.8 million, Africa moved into second place (2013: EUR 325.7 million). Of the funds committed to Africa in 2014, EUR 240.4 million went to Sub-Saharan Africa, whereas in 2013 all the commitments were intended for that region. Commitments for Latin America came to EUR 273.0 million (2013: EUR 401.1 million). The number of schemes for which finance was committed remained roughly the same, although volumes were on average slightly lower.

The Europe/Caucasus region received total commitments of EUR 125.0 million (2013: EUR 170.6), of which EUR 84.5 million were intended for Eastern and South-Eastern Europe (2013: EUR 145.2 million). EUR 56.5 million were allocated to supra-regional proposals (2013: EUR 60.7 million).

By economic sector, commitments for the financial sector of EUR 490.3 million again accounted for the lion's share in 2014 (2013: EUR 478.5 million). By providing finance for banks, funds and specialist finance providers, the aim is primarily to improve financing options for SMEs in partner countries. They have hardly any access to long-term investment capital locally.

More than EUR 460.3 million were committed for infrastructure proposals (2013: EUR 314.1 million). DEG funds committed in 2014 are designed to finance mainly investments in renewables and in the health and transport sectors.

DEG allocated EUR 273.6 million for investments in the manufacturing industry (2013: EUR 403.6 million). In agribusiness and the food industry, the commitment volume was EUR 131.5 million (2013: EUR 207.8 million). These falls are mainly due to a reluctance on the part of local and international enterprises to invest in these sectors. Financial commitments in the services sector came to EUR 117.8 million (2013: EUR 46.0 million).

Lendings accounted for EUR 1,091.8 million in new commitments (2013: EUR 1,120.7 million), of which EUR 285.5 million were arranged as loans with equity features (2013: EUR 242.9 million). Lendings in US dollars amounted to the equivalent of EUR 818.0 million (2013: EUR 790.6 million). EUR 380.2 million of new commitments were for equity participations (2013: EUR 329.3 million). In addition, there was a commitment for one guarantee in the amount of EUR 1.5 million (2013: no guarantees).

Cooperation with other development finance providers

DEG relies on its international networks. For many years, it has worked very closely with the members of the European Development Finance Institutions (EDFI), an organisation of development finance institutions for the private sector co-founded by DEG. Cooperation with its EDFI partners enables DEG to increase its presence in the markets and offer its clients greater volumes of finance while sharing the risks.

With the co-financing vehicle European Financing Partners (EFP), the European Investment Bank (EIB), DEG and twelve other EDFI members have promoted private investments of approx. EUR 1.0 billion since 2003 in countries in the African, Caribbean and Pacific regions (the ACP Group of States). Eleven EDFI members, EIB and Agence Française de Développement (AFD) are also partners in the "Interact Climate Change Facility (ICCF)" designed to finance climate-friendly schemes by the private sector. DEG made a further EUR 20 million available when the vehicle was topped up in 2014. In 2014, the EDFI member institutions also participated in the joint UN/EU initiative "Sustainable Energy for all". In the context of the "EU-EDFI Private Sector Facility", the EDFI group received a guarantee and funds for technical support to promote sustainable energy projects in Sub-Saharan Africa.

Within the framework of its close cooperation with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of the Netherlands and Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) of France, DEG entered into 35 involvements with a volume of EUR 1,305.0 million (2013: EUR 972.3 million). DEG's share of the overall finance was EUR 520.4 million (2013: EUR 413.5 million).

In addition, DEG regularly cooperates with other EDFI partners, with multilateral developments banks – especially the IFC and the EBRD – and with regional financial institutions.

Financing programmes

In 2014, a total of approx. EUR 30 million (2013: EUR 28.4 million) was available for development programmes carried out by DEG on behalf of third parties. New commitments were made for 159 projects (2013: 165), of which 74 involved German enterprises.

Under the programme for "Development Partnerships with the Private Sector" ("Entwicklungspartnerschaften mit der Wirtschaft") operated by the Federal Ministry for Economic Cooperation and Development (BMZ), funds were made available for develoPPP.de as well as for feasibility studies, grants for transaction costs, complementary measures and a programme of innovation vouchers. Usually, funding of up to 50% is provided, with a maximum of EUR 200,000. Overall, EUR 19.5 million were made available from BMZ funds.

develoPPP.de helps German and other European enterprises to carry out measures that benefit development. In 2014 EUR 15.6 million in BMZ funds were made available for new commitments and current projects (2013: EUR 15.2 million). A total of 62 develoPPP.de projects were approved in the year under review (2013: 63).

To assist with the planning and preparation of specific investment schemes, DEG draws on BMZ funds to co-finance feasibility studies by German and European enterprises. In 2014, BMZ made EUR 1.5 million available for the purpose (2013: EUR 1.5 million). Commitments were made for 14 feasibility studies (2013: 14).

Three schemes by German medium-size enterprises in Brazil, China and Mexico were supported with grants for transaction costs of EUR 0.1 million from BMZ funds in 2014 (2013: EUR 0.3 million).

To improve economic, social and ecological development in agriculture, especially in Africa, BMZ launched a special initiative at the end of 2014 called "develoPPP.One World. No Hunger". The initiative is designed to run until 2016. For the first project to be approved – food production in Ivory Coast – EUR 0.1 million were made available via DEG.

To provide targeted, client-focussed solutions for finance schemes and to further enhance their developmental impact, DEG carries out complementary measures. Enterprises may receive support designed to improve their "bankability" during the preparation phase of their scheme, to take measures to increase resource efficiency in existing involvements, or to set up adequate environmental and social management systems.

In 2014 a total of EUR 4.8 million (2013: EUR 4.1 million) was made available for 73 complementary measures (2013: 77). Of this, BMZ funds accounted for EUR 1.9 million (2013: EUR 1.8 million), while EUR 2.9 million came from DEG funds (2013: EUR 2.3 million).

The programme "Climate Partnerships with the Private Sector", operated on behalf of the Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMUB), aims to promote climate-friendly technologies in developing and emerging-market countries. BMUB made EUR 0.85 million available for the purpose in 2014 (2013: EUR 1.0 million). In August 2014 BMUB agreed to extend the programme until the end of 2017 and plans to provide a total of EUR 4.16 million.

The "Up-Scaling" programme, which is funded from reserves, promotes pioneer investments by SMEs in developing and emerging-market countries that want to expand an innovative business model. DEG shoulders up to 50% of the total investment volume (EUR 500,000 max.), provided its private sector partners contribute at least 25% of the finance. DEG's contribution must be repaid if the scheme is successful. In 2014 finance was committed for six schemes and EUR 2.3 million were disbursed (2013: EUR 1.0 million).

In Afghanistan, DEG set up a loan guarantee facility with funds from BMZ and the United States Agency for International Development (USAID) which was intended to give SMEs access to finance while helping to stabilise the financial sector. This project was wound up at the end of 2014, when the Afghan Credit Guarantee Foundation was set up, completing the transition to a self-supporting organisation. In 2014, 643 new guarantees were issued (2013: 666) for loans with a volume of USD 17.9 million (2013: USD 22.2 million).

Phase II of the "Competitive African Cotton Initiative (COMPACI II)" has been running since 2013. The initiative was set up to improve income levels for African cotton farmers. DEG and Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation, GIZ) were commissioned by the Bill & Melinda Gates Foundation and BMZ to implement the initiative. The overall volume for the period from 2013 to September 2016 is EUR 53.8 million. DEG allocated EUR 3.5 million for the project in 2014 (2013: EUR 2.8 million). The initiative is designed to benefit 650,000 smallholders in twelve African countries over the course of its operation.

DEG was also instructed by the Bill & Melinda Gates Foundation to undertake stewardship of the "Coffee Partnership for Tanzania (CPT)", with a project volume of EUR 22.5 million. It is addressed to 85,000 coffee farmers and will run until 2016. In 2014 DEG allocated EUR 1.0 million in funds to the partnership (2013: EUR 0.8 million). German enterprises are making a noteworthy contribution to the implementation of both programmes.

Developmental impacts

In order to control and evaluate the quality of its involvements in relation to business and development policy, DEG uses its Corporate Policy Project Rating (Geschäftspolitisches Projektrating, GPR) for both ex-ante and ex-post analyses. For this crucial performance indicator, each proposal is assessed and awarded points in four categories and then assigned to a developmental quality group.

The evaluation of new financial commitments for 2014 showed that as expected, the high developmental quality achieved in the previous year was maintained, with an average rating of 2.1 (2013: 2.0). With their tax payments in partner countries, the co-financed enterprises are likely to contribute approx. EUR 663 million annually (2013: EUR 812 million) and earn around EUR 4.2 billion (2013: EUR 3 billion) in net foreign exchange income per annum. The significant increase is mainly due to one major supra-regional scheme.

Such substantial contributions from the private sector mean that budget deficits in partner countries can be reduced and foreign exchange revenue boosted.

Finance provided by DEG also enables the annual generation of 4,000 GWh of green electricity, supplying almost 5.5 million people.

Approximately 843,000 jobs have been created or secured as a result of the investments co-financed by DEG in 2014. This is the second-highest number ever, after the previous year's 970,000 jobs. Some 72% of schemes financed (2013: 75%) make a direct contribution to achieving the Millennium Development Goals (MDG), mainly of ensuring ecological sustainability, eradicating poverty, and promoting gender equality.

Moreover, many of the enterprises co-financed by DEG accept more corporate responsibility. They pay above-average wages, offer pension or health insurance benefits, and operate health centres, nurseries and schools.

STATUS REPORT

Profitability

2014 was a successful year for DEG both economically and in other ways. Despite subdued economic activity in its partner countries, it was able to achieve a better result than in the previous year.

In the year under review, the interest surplus was EUR 190.1 million, slightly more than the year before (2013: EUR 185.9 million). The impact of the US dollar's appreciation more than made up for the low levels of interest. Interest payable includes an extraordinary charge of EUR 4.0 million from interest rate hedging.

The result from participating interests rose by EUR 107.1 million to EUR 195.9 million in the year under review (2013: EUR 88.8 million); 87.7% of income from the disposal of participating interests is accounted for by direct investments and 12.3% by funds.

The substantial rise is mainly due to a single successful transaction. Additionally, various participating interests were sold via the stock exchange.

The rise in income from disposals more than made up for the 25% drop in income from dividends to EUR 24.0 million, due to the fall in distributions by funds and banks and the earlier disposal of participating interests.

German accounting standards P&L – economic presentation

EUR million	2014	2013
Income from lendings	210.6	204.1
Other interest and similar income	0.7	1.0
of which income from interest rate hedging	0.0	0.0
Interest payable and similar charges	–21.2	–19.2
of which charges from interest rate hedging	–4.0	0.0
Interest surplus	**190.1**	**185.9**
Income from disposals[1]	171.9	56.6
Income from dividends[2]	24.0	32.2
Result from participating interests	**195.9**	**88.8**
Remaining other operating income[3]	**19.7**	**44.7**
Staff costs	–59.1	–56.3
Non-staff costs[4]	–46.1	–42.4
Administrative costs	**–105.2**	**–98.7**
Operating result before provision for risk and valuation effects from currency	**300.5**	**220.7**
Net provision for risk write-up (+)/write–back (–)	–128.5	–103.8
Valuation effects from currency[5]	6.9	–4.5
Profit for financial year before tax	**178.9**	**112.5**
Taxes	–15.2	–34.2
Transfer/withdrawal from purpose-tied reserve fund	5.2	3.2
Net income	**168.9**	**81.5**

1) Itemised as "Other operating income" in P&L
2) Itemised as "Income from participating interests" in P&L
3) Itemised in P&L as "Other operating income" without income from the disposal of participating interests and without currency valuation effects
4) Itemised in P&L as "Other operating charges" and depreciation and adjustments for impairment of tangible and intangible assets, without currency valuation effects
5) Income from foreign currency (EUR 33.0 million) and foreign currency charges (EUR 26.1 million) are defined as currency valuation effect

In the year under review, other operating income of EUR 19.6 million fell below the previous year's figure (2013: EUR 44.7 million). It should be noted here that the previous year's position included extraordinary income of EUR 24.7 million from the sale of a security from the restructuring of an involvement, and from a contractually agreed adjustment payment in connection with another involvement.

The net transfer to provision for risk amounted to EUR 128.5 million in the year under review (2013: EUR 103.8 million). 68% of the net transfer is allotted to lendings and 32% to participating interests. For the participating interests, the shift towards crisis in Russia, and especially the trend of the rouble in December accounted for 66% of net provision. Other significant transfers were occasioned by a fall in earnings expectations and stock market-induced devaluations. In the lendings business, there was a rise in the number of loans for which provision for risk needed to be made or in some cases significantly increased because the borrowers were experiencing adverse economic developments. In addition, higher provision for risk per loan was required on average.

Staff costs in the 2014 financial year rose by EUR 2.8 million. This was mainly due to an increased requirement for transfers to pension provision resulting from the fall in actuarial interest as well as from the salary increases provided for in the company agreement and from the rise in staff numbers.

Operating charges rose by EUR 3.7 million in 2014. This is partly due to a rise of EUR 2.0 million in charges relating to complementary measures and the "Up-Scaling" programme, and partly to the increased incidental costs of disposal for participating interests (EUR 0.8 million) as well as to the cost of measures taken by DEG in consequence of KfW coming under the provisions of the Banking Act (EUR 0.8 million).

In 2014, DEG made significant profits from the appreciation of the US dollar in respect of currency valuation effects.

Financial position

In the past financial year, investments in partner countries and in bonds and notes under current fixed assets amounted to EUR 1,199.7 million. These disbursements were financed by cash inflows from loan repayments (EUR 705.7 million) and the disposal of participating interests (EUR 145.5 million) as well as by newly raised outside capital. The external funds were raised exclusively from KfW in the form of borrowers' notes and overnight loans. In 2014 EUR 1,544.0 million in funds were raised and EUR 1,500.0 million repaid. External funds were raised by taking advantage of DEG's refinancing agreement with KfW. Remaining disbursements were made from the cash operating result.

Under the 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 the reference rate of interest plus an internal transfer price set by KfW. DEG was solvent at all times during 2014.

Net worth position

Taking into account the disbursement of financial commitments and currency conversions of EUR 1,666.1 million in 2014 and disposals, repayments and write-offs of EUR 967.2 million, investments in partner countries at original costs rose by EUR 699.0 million to EUR 5,374.7 million. The rise is due to currency developments, mainly of the USD.

Participating interests at original cost rose by EUR 85.0 million to EUR 1,244.8 million.

Other assets fell by EUR 31.9 million. This is due to the smaller balancing item for accountancy purposes relating to foreign currency valuation for the valuation units, arising partly from the use of the gross hedge presentation method and partly from hedging with off-balance sheet foreign currency transactions.

Taking into account the withdrawal of EUR 5.2 million from the purpose-tied reserve fund for complementary measures and the net profit for the financial year of EUR 168.9 million, own funds increased overall by EUR 163.7 million to EUR 2,071.0 million. Business volume (measured by balance sheet total without trust business) rose to EUR 5,257.5 million, an increase of 12% over the previous year.

The equity ratio (proportion of equity capital to business volume) fell from 40.5% to 39.4%. The pre-tax return on equity (ratio of the result from ordinary activities and average equity) exceeded expectation in 2014 at 9%. This results in a three-year average for 2012–2014 of 8%.

FOLLOW-UP REPORT

No significant events of special significance for profitability, financial or net worth position occurred after the end of the financial year.

INTERNAL CONTROL SYSTEM (ICS)

DEG defines its Internal Control System as all the corporate principles, processes and measures designed to ensure

- the effectiveness and profitability of its business operations,
- the correctness and reliability of external and internal financial reporting,

- compliance with any statutory regulations that apply to DEG, and
- protection of the assets and substance of its financial and net worth position.

DEG has formulated its own guidelines, based on KfW's ICS framework, which describe the aims, structure and components of its ICS. These principles establish quality standards and the measures employed by DEG to achieve its goals and identify, assess and reduce risks. ICS design and implementation fall within the remit of the Management Board and those senior DEG executives who have strategic and operational responsibility for the process. The ICS extends to all business units, including representative offices, and applies to all corporate functions and processes.

DEG's processes have been established in accordance with the principle of the separation of functions. The Documented Regulations (Schriftlich Fixierte Ordnung SFO) include a description of these processes and the way competences and responsibilities are assigned. They are regularly reviewed and updated in case of change.

The ICS is made up of the Internal Management System, which includes all the regulations designed to manage corporate activities, and the Internal Monitoring System intended to ensure the effectiveness of, and compliance with, these regulations. The implementation of the annual business and risk strategy is regularly monitored in the context of the Internal Management System, and reports are submitted to the appropriate bodies.

The Internal Monitoring System includes monitoring measures integrated into the processes, and others that are independent of them. In process-integrated monitoring, the risks inherent in operational processes are identified and corresponding checkpoints set up within the processes. DEG carries out regular reviews of the function and effectiveness of the controls as defined in order to verify the appropriateness and effectiveness of its ICS and/or highlight possible weak points. A report is submitted to the Supervisory Board annually and complements existing risk reporting.

During the function and effectiveness review for 2014, 147 key controls for risk classes II (processes carrying medium risk) to IV (high-risk processes) were subject to testing. Based on these tests, DEG's ICS was judged to be effective.

OUTLOOK

After the world economy grew by just 2.6% in 2014, well short of the 3.2% forecast, a return to stronger economic performance is expected for 2015. Global growth is likely to reach 3.0%. The factors contributing to this recovery include a stronger development in the industrialised countries as well as in emerging market and developing countries.

GDP in emerging market and developing countries is expected to rise by 4.8% in 2015, so they will again outperform developed countries, where 2.2% growth is forecast. However, the increase in growth will probably be less dynamic. On a region-by-region basis, the growth scenario remains mixed. For instance, the level of economic growth in Asia and Africa in 2015 is likely to be similar to that achieved in 2014.

In Latin America, 2015 is expected to bring a stronger upturn against the backdrop of the previous year's very weak economic performance. As far as GDP in major emerging-market countries like Brazil is concerned, growth is expected to be subdued as a result of structural issues and cyclical factors, while the growth rate in China is thought likely to match the previous year's. The same picture is reflected in the flow of private sector capital. Capital inflows are not expected to increase significantly in 2015 and again, this is mainly because the industrialised countries have become more attractive as investment locations, especially the USA.

While on the one hand, accelerating growth in the industrialised countries is likely to have a favourable impact on developing countries through foreign trade, a rise in interest rates triggered by a change in monetary policy, especially in the USA, would put developing countries at risk. The focus here is especially on emerging-market countries with foreign trade imbalances and a high degree of integration into the global financial markets. In view of existing global risks, the current volatility in the capital markets and the interest rate premiums are judged to be too low and share prices very high. Possible adjustments may have a marked effect, especially on emerging market and developing countries. A further weakening of local currencies may well prove relevant given that DEG's participating interests business is denominated in local currencies. The focus is especially on the Russian rouble, where further depreciation cannot be ruled out. Given the monetary policies being pursued and the developing economic trend, interest rates in the USA will remain higher in 2015 than in the euro region.

Oil prices, which recently recorded a marked fall, have boosted the economies of many oil-importing countries, while the oil exporters are in some cases coming under considerable strain. The political risks in North Africa and Central Africa, in the Middle East and in Ukraine are likely to persist in 2015[2].

Corporate forecast

Against this background, DEG plans to make financial commitments of EUR 1.5 billion in total for 2015. Under these plans, new business in Africa and other future markets is to be further expanded in 2015, as is finance for SMEs and

[2] Source: Global Economic Prospects, World Bank, January 2015

medium-sized enterprises ("Mittelstand"). The proportion of newly committed finance devoted to climate and environmental protection is to increase further. By the same token, finance for investments by German enterprises in developing and emerging-market countries will also be expanded. The volume of risk capital finance will rise compared to the previous year. DEG expects the good development policy ratings achieved by the schemes it finances to be maintained in 2015.

That DEG finance remains in great demand is clear from the applications for finance received by the end of 2014, from which new business is derived. At approx. EUR 1.6 billion, the volume matches the previous year's.

The commitment obligation is an important performance indicator for DEG's business operations. The plans for 2015 provide for growth of approx. 12%, due to foreign currency effects and based on a moderate increase in financial commitments.

DEG expects the earnings trend to be favourable in 2015. However, there is no expectation of a single transaction having a similar impact on income from disposals as in 2014. The main sources of income remain income from participating interests and the interest surplus from the loans business. The rise in staff costs and operating charges will be a little higher than the year before. This is mainly due to the creation of new posts, higher transfers to provision for pensions and DEG's additional costs for measures occasioned by KfW coming under the Banking Act.

Under current plans, net provision for risk in 2015 will be EUR 95 million. Annual profit after tax is expected to be approx. EUR 107 million.

For 2015 DEG expects a pre-tax return on equity (an important performance indicator) of roughly 7% on a three-year average. It should be noted that its financial success is significantly affected by its provision for risk and by volatile earnings from participating interests, which are dependent on external market conditions.

The development forecast highlights the challenging and complex business climate in which DEG operates and which, conversely, also generates business opportunities. DEG fulfils an important, yet intricate role in existing and new markets. In emerging-market countries, DEG is increasingly concentrating on participating interests and mezzanine finance as well as on consultancy services.

In developing countries that are making observable progress, DEG offers its complete range of products, whereas in future markets, it also takes on the role of pioneer investor. Generally speaking, demand from these markets for long-term finance by enterprises wanting to invest is likely to continue and increase over time. In order to take better advantage of its opportunities in both development policy and business terms, DEG will focus even more closely on its clients' needs in the future.

Against this background, DEG expects to be able to achieve its goals in 2015 as in earlier years and to expand its promotional business in terms of both quality and quantity.

OPPORTUNITY AND RISK REPORT

Opportunity management

Within the scope set by regulatory requirements, DEG takes suitable advantage of opportunities arising from changes in the business environment, economic trends or other shifts in market parameters. In doing so, its focus is not simply on making a short-term profit, but on ensuring the sustainable fulfilment of its development policy mandate. Its market divisions in particular are constantly identifying and analysing suitable opportunities, which are taken up after coordinating with the relevant bodies and the Management Board. Long-term opportunities are additionally worked up jointly with the Corporate Management Division and included in the annual strategy review process.

At individual transaction and portfolio level, opportunities arise mainly in the participating interest and loans business as well as thanks to risk reduction during restructuring in the non-performing section. Here, qualified portfolio management ensures that opportunities are seized.

Based on the assessments as per the forecast, the following opportunities will potentially open up to DEG in the 2015 financial year and over the medium term.

From the present vantage point, economic developments in partner countries are expected to move sideways, if at all. Important core countries such as Brazil, Mexico, India, Egypt and Turkey have not been able to build on the favourable economic developments of earlier years. Add to that structural deficits, which become especially pronounced during periods of weak economic activity. Moreover, China is also expected to experience muted economic growth in 2015, with effects that may spread to other DEG partner countries. The development in Russia is worrying. Here, 2015 is expected to produce a detrimental impact on earnings rather than potential opportunities. Against this background, DEG takes the view that any opportunities likely to arise from lower address risks, and hence reduced provision for risk, are limited.

The development of the participating interests portfolio in the past year was twofold. In some countries, clear value enhancements – and hence hidden reserves – were recorded in keeping with the forecasts. These were due to the appreciation of both local currencies and the US dollar. However, in the Russia portfolio, substantial provisions for risk had to be made. If the effects of this appreciation of local currencies, and especially of the US dollar, continue, opportunities for further potential value enhancements exist for 2015. For the Russian portfolio of participating interests, we expect any positive impacts to occur in the medium term, if at all.

Both for the 2015 financial year and above all in the medium term, particular opportunities have been identified in the fields of "risk capital" and "future markets".

DEG's experience over recent years has shown that the risk capital products it employs frequently display an attractive risk/return profile. However, an important prerequisite is that both political and macroeconomic developments in key markets remain satisfactory.

The future markets identified, i.e. post-conflict countries in which the private sector is newly emerging and International Development Association countries outside of Africa, are distinguished by above-average growth potential and high demand for investment on the one hand and, in some cases, inadequate provision of long-term financial products on the other. DEG's business model is especially appropriate for these target markets – thanks to its long-term view and its financial products, as well as its willingness to be an early entrant into new markets and fundamentally accept the risks involved. If it is successful in consistently applying its market entry strategies to these future markets, DEG can look forward to favourable opportunities in terms of both volume and margins, matched by high levels of developmental impact.

Risk management

DEG is exempt from key requirements of the Banking Act. However, in addition to subscribing to KfW's basic corporate risk principles, it has undertaken to maintain the standards of the Bank Supervision Act, in particular the minimum requirements for risk management (MaRisk) mutatis mutandis and to comply with them in its business operations.

The design of DEG's organisational structure ensures that the Market and Commerce divisions are distinct from the back office divisions or functions, up to and including senior executive level. The Management Board, which is responsible for risk management, regularly reports on DEG's risk situation to both the Supervisory Board and KfW.

Active risk management is undertaken especially in the Market and Commerce divisions; in the course of their business operations, they are responsible for clients and products as well as risk and earnings.

The back office and non-market-dependent divisions are responsible for the functions risk controlling (risk strategy, risk methodology, assessment, reporting and market conformity review), credit management (allocation of competencies in the credit business/back-office assessment, responsibility for methods and processes for intensive support, problem loans (restructuring, disposal)), transaction management (settlement of commercial transactions, payment transactions and custody).

DEG's risk management process basically includes the following phases: identification, analysis, management, monitoring / supervision and reporting. The requirements are defined in the main Risk Handbook.

Overall responsibility for risk management rests with the Management Board. It agrees DEG's business and risk strategy (taking into account KfW's corporate requirements, including processes to be used in measuring, managing and monitoring risk). Taking all relevant types of risk into consideration, the risk strategy defines strategic and operational requirements (budgets, limits, etc.) as well as risk policy orientation as applied to risk management, thus creating the basis for DEG's risk culture.

Another corporate body is the Supervisory Board, which advises and monitors DEG's Management Board in its running of the business. As part of this task, the Supervisory Board receives regular reports on the risk situation, risk management and risk controlling. The Audit Committee set up by the Supervisory Board meets four times a year and supports the Management Board, especially on issues of risk management. In this context, measures and transactions of particular importance require the explicit approval of the Supervisory Board or the Audit Committee.

The Shareholders' Meeting is one of DEG's corporate bodies. As part of its role, it receives the reports on the risk situation, risk management and risk controlling. The Shareholders' Meeting approves the business and risk strategy annually.

In the year under review, DEG's Internal Audit assessed the processes and methods involved in the risk management system. The priorities for the assessment were capital and profitability planning (capital planning process as a group-wide audit), ICS framework, outsourcing, business and risk strategy, operational risks, quality of data used in compiling the risk report, and trading limits. In addition, it supported projects on subjects including market price risks ("Local Currencies" project) and finalised project support for implementation of the fourth amendment to MaRisk.

Risk policy

Key types of risk are identified in an annual risk inventory. The following types of risk remain significant for DEG: credit risk, market price risk, operational risk and market liquidity risk. Given DEG's business model, credit risks are top of the list. The foreign currency risks taken on by providing the finance also display a higher degree of risk. As part of DEG's strategy process, risk strategy is defined in line with the key risks arising from its business strategy. The risk strategy includes risk management goals for key business activities and lists measures to achieve each risk target.

The strategy comprises fundamental statements on risk appetite and risk capacity, taking risk and income 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.

Its aim is to limit developments with an adverse impact on DEG. The risk strategy is the result of strategic planning and covers a medium-term planning period. Quantitative requirements (budgets, limits) are defined for a one-year period and then extrapolated for a period of several years to establish risk capacity. Steps have been taken to ensure that DEG's risk strategy and the risk control measures derived from it are consistently embedded in KfW's corporate risk strategy.

The risk strategy is implemented by means of specially targeted control processes and instruments. Monitoring is carried out monthly, mainly in the course of risk reporting. Where deviations from the risk strategy occur, the reasons are analysed and commented on, and if appropriate, recommendations for action derived and measures agreed.

Income and risk concentrations are regularly analysed and discussed by in-house bodies. If necessary, additional measures in keeping with the above-mentioned requirements are devised. The Audit Committee and the Supervisory Board receive continuous updates on DEG's risk situation in a quarterly report.

Key risk strategy goals for DEG are: to secure the economic solvency level (economic risk capacity) required and to maintain regulatory risk capacity based on the equity capital rules set by the supervisory authority, with which DEG complies voluntarily. On this basis, and taking account of the risk limits and qualitative requirements specified in the risk strategy, DEG takes a decision on whether risks are to be accepted, reduced, limited, avoided or transferred.

The Risk Management Committee (RMC) and the Asset/Liability Committee (ALC), which both convene monthly, are the main bodies which discuss and decide on issues relevant to risk. The ALC focuses on matters relating to market price and liquidity risks, while the RMC is concerned with situations to do with credit and operational risks (OpRisk). Both address issues relating to measurement, reporting and management of these risks. The RMC is additionally responsible for overarching issues such as risk strategy, risk capacity, stress testing, and the introduction and/or evaluation of new products.

DEG also has an Equity Risk Committee (ERC) and a Credit Risk Committee (CRC). The ERC is an advisory and coordination body; its aim is the early identification of movements in the market and the cross-divisional control of risks in DEG's portfolio of participating interests. The CRC is an advisory and coordination body which aims to identify increased risks in DEG's loans portfolio at an early stage. It also monitors compliance with any close supervision and discusses existing and potential payment delays.

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

Risk capacity

DEG's risk capacity is determined and monitored under both economic and regulatory aspects (monthly and quarterly respectively). For both, minimum equity capital requirements are laid down and must be observed. This ensures that DEG's risk capacity is maintained under regulatory as well as economic aspects and both in target date terms and under stress conditions. The solvency level for economic risk capacity is defined as 99.96% for an evaluation period of one year.

Twice a year, calculations are carried out for a typical going concern scenario in which the requirements for a going concern view are comprehensively taken into account.

In the year under review, the solvency level was reduced from 99.99% to 99.96% to ensure that even under stress conditions, a level appropriate for DEG's business mandate is maintained.

Article 26 of Germany's Capital Requirement Regulation (CRR) defines regulatory risk coverage as the core capital, i.e. paid-up share capital plus reserves, taking deductible items into account. The (as yet) unapproved quarterly results or profit for the financial year are taken into account in the risk coverage.

In the economic risk capacity calculation, deductible items relating to participating interests in enterprises in the financial sector are not eliminated from risk coverage.

In a typical going concern approach, the equity capital required by CRR is taken into account when determining risk coverage.

The economic equity requirement is determined for all significant types of risk and compared to the risk coverage for a “gone concern” approach. Future outlook is considered by simulating risk capacity under downturn and stress conditions for an effective date a year ahead.

The economic capital required for credit risks in the finance business is calculated using a credit portfolio model (Internal Ratings Based Approach (IRBA) formula as per CRR). In this model, the level of economic capital depends on individual borrower ratings and product-related loss ratios. DEG's main counterparty risks from the derivatives business and from the investment of funds relate to KfW.

The economic capital requirement for market price risks (interest rate and foreign currency risks) is measured and controlled both in terms of present value and using value-at-risk (VaR) methods. The value-at-risk methods are based on a variance/co-variance approach,

The risk assessment is based on the present value of any portfolio positions subject to interest rate and foreign currency risks. Present values are determined daily. All positions bearing an interest rate or foreign currency risk are included in the present value calculation. All cash flow components are considered for which an impairment could lead to the erosion of risk coverage. In risk measurement, the cash flows are declared due on the next date on which the client has the option of terminating.

Using these methods, the risk of changes in present value is measured for interest rate and foreign currency risks, given a holding period of two months (maximum time to close out the positions) and a solvency level of 99.96%. For currencies without fungible hedging instruments in the markets, a holding period of one year is assumed. For operational risks, individual types of earnings in defined fields of business are weighted with special risk factors as required by BaFin in the standard approach under Basel II rules.

The risk situation has not materially changed compared to 2013; however, the probability of default in the portfolio has risen slightly from 3.66% to 3.85% due to rating migrations and new business in sub-average risk classes.

Stress tests

DEG regularly carries out stress tests with the aim of modelling an assessment of the impact on risk capacity of a potentially adverse economic climate and identifying potentially significant risks and risk concentrations.

Every quarter, scenarios, standard stress tests and individual stress scenarios are calculated and analysed. In a downturn view, the risk capacity for a target date twelve months ahead is calculated based on the assumption that recognisable risk potentials materialise as a slight economic downturn. In a stress view, the risk capacity on a target date twelve months ahead is viewed based on the assumption that a serious recession has occurred. In each instance, calculations are carried out to establish the effect on the Profit and Loss Account (P&L), the impact on the economic capital requirement, and risk capacity.

Using reverse stress tests, DEG performs quarterly analyses to establish which scenarios might lead to the complete erosion of risk coverage potential.

In devising its stress test scenarios, DEG draws on the results of its measurement of risk concentrations and of its early warning system. The assumption is made that risk factors are being affected by improbable, but plausible changes and shocks. For both general and scenario stress tests, potential losses are calculated, the development of economic capital is simulated, and the impacts on risk capacity modelled and critically analysed.

Risk capacity

EUR million	31 Dec. 2013	31 Dec. 2014
Economic capital requirement	1,205	1,191
Address risks	905	861
Market price risks	250	277
of which interest rate risks	103	102
of which foreign currency risks	147	175
Operational risks	50	53
Economic risk coverage	**1,905**	**2,069**
Unrestricted equity	700	878

The selection of scenarios and their results are discussed quarterly by the Risk Management Committee with Management Board involvement. All the results are used to assess risk capacity as at the effective date and for a going-concern view. They are also taken into account in medium- to long-term planning.

The analysis of risk capacity under stress conditions showed that the risks undertaken by DEG were tenable at all times, both on the effective date of 31 December 2014 and throughout the year.

Types of risk

The following sections examine DEG's business operations in relation to key types of risk.

Credit risk

Credit risk (in the wider sense) includes the risk of a possible deterioration of creditworthiness, with a default on the part of the contractual partner as a special case. Address risk (including counterparty risk, securities risk and country risk), migration risk and settlement risk are subsumed under credit risk in this wider sense.

As the breakdown of commitment obligation by region and by industries shows, DEG's risk policy positioning creates concentrations in its portfolio. The distribution by region is not critical in terms of risk. Distribution by industry shows a particular focus on providing finance to financial institutions and enterprises in the energy sector. To restrict such concentrations, DEG has defined limits at country level for these industries. Although manufacturing accounts for a large percentage, this industry's portfolio displays a heterogeneous mix, so no limit needs to be defined.

DEG has also limited the volume of finance for financial institutions by region in order to restrict transnational concentrations.

The risks lie mainly in the enterprises financed by DEG all experiencing the same adverse development, and the required provision for risk consequently having a more significant adverse effect on DEG's annual result than expected.

Because DEG's business model is shaped by development policy, its portfolio mix – as it relates to credit risk classes – displays a concentration of medium and high default risks, which is to be expected. For country risk classes, most finance provided by DEG has a good to medium default risk.

Limits have been defined for individual addresses, countries, groups of associated clients and industries. Beyond that, DEG is integrated into KfW's corporate system of limits. Existing limits must be observed, whether set by DEG or by the group.

The Management Board is immediately notified of any breach of the limits. Breaches are detailed in the risk report.

As at 31 December 2014, there were twelve breaches (nine breaches of the address limit, two breaches of the limit relating to groups of associated clients and one breach of a country limit).

These breaches were analysed and reported in keeping with the regulations laid down in the Risk Handbook.

On that basis, appropriate options for future action were devised and measures taken. The limits are defined based on DEG's income and equity capital situation and establish the scope within which the business strategy can be implemented. Should a significant deterioration of the economic situation in our investment countries occur, there is a risk that

Regional distribution of industries by commitment obligation

Share of portfolio (commitment obligation as at 31 Dec. 2014)	Africa	Asia	Europe/ Caucasus	Latin America	Total	Prev. year 31 Dec. 2013
Financial institutions	8.4%	11.1%	12.9%	12.8%	**45.2%**	44.6%
Manufacturing	2.5%	9.1%	2.9%	5.5%	**20.0%**	22.4%
Energy & water supply	3.4%	4.7%	0.9%	5.4%	**14.4%**	12.0%
Transport, telecommunications, infrastructure	0.9%	0.9%	4.0%	2.0%	**7.8%**	7.4%
Other services, tourism	2.8%	2.8%	2.5%	2.4%	**10.5%**	8.6%
Agriculture, forestry, fisheries	0.3%	0.2%	0.5%	0.5%	**1.5%**	4.4%
Mining, quarrying, non-metallic minerals	0.4%	0.1%	0.0%	0.1%	**0.6%**	0.7%
Total	**18.7%**	**28.9%**	**23.7%**	**28.7%**	**100%**	-
Prev. year, 31 Dec. 2013	19.8%	29.7%	22.8%	27.7%	-	100%

the leeway provided by the limits is no longer sufficient to implement the business strategy. In that event, the strategy would need to be adapted.

Acute risks in countries and sectors are additionally limited based on risk barriers prescribed by the group; these use a traffic light system to monitor and control transactions in the markets affected.

For most of its business, DEG not only uses its own in-house rating methods, but also KfW's corporate credit ratings for banks, corporates, countries (for transfer/conversion risks) and for equity funds. These are regularly validated by KfW. For banks, corporates and countries, the rating methods meet the qualitative criteria of the German Solvency Regulation (IRBA) as per CRR.

DEG's own rating methods undergo annual in-house validation.

In addition, the loans portfolio is monitored monthly for any interest or redemption payments in arrears by more than 90 days. The loans portfolio is also analysed and monitored for arrears of between 30 and 90 days to extrapolate possible early warning indicators. Non-performing obligations (commitment obligations with an M19 or M20 rating) as at 31 December 2014 amounted to EUR 520 million.

Arrears of over 90 days and in excess of EUR 10,000 came to EUR 190 million.

The need for individual value adjustments in business on own account, depreciations in trust business for the German government, or the need for individual provisions for probable losses from guarantees and for pledging of participating interests are determined at regular intervals or, if necessary, immediately after any depreciation has been identified, using the available assessment tools to measure the provision for risk required in individual cases. For latent risks, provision is also made in the form of a portfolio value adjustment based on the expected loss. Additional remarks describing the risk provisioning method can be found in the appendix under Accounting/valuation criteria.

For all involvements, a ratings review is carried out at regular intervals or if early warning indicators are present. For an M16 rating or below, close supervision is introduced; this includes more intensive support for the involvement as well as measures designed to safeguard any assets. Where serious disruptions have occurred, e.g. persistent default, 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 involvement is transferred to problem management.

As required by the regulator, this is carried out by specialist staff and is designed to stabilise or wind up the involvement while not necessarily winding up the enterprise. The department responsible reports at least once a quarter on the development of troubled involvements and any insights gained.

If the economic outlook in our investment countries should fundamentally deteriorate, DEG would run the systematic risk of a worsening prospect of restructuring or winding up. In that case, the actual default might substantially exceed the provision for risk and have a significant negative impact on results.

Market price risk

By its own in-house definition, DEG does not operate as a trading book institution as per the Banking Act (KWG). In other words, there is no trading on own account for the purpose of generating short-term income. Key types of market price risk for DEG are interest rate risks and foreign currency risks.

Interest rate risk

Interest rate risk is defined as the risk of losses due to a change in interest rate ratio unfavourable to DEG. In relation to DEG's finance business, interest rate risk refers to the potential loss that may result if a commitment made to a client on specific terms is later refinanced at higher interest

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

Country or credit risk classes on the M scale	Credit risk	Commitment obligation at 31 Dec. 2014			
		Country risk		Credit risk	
		EUR thousand	per cent	EUR thousand	per cent
M1 to M8	Investment grade	3,694,192	53%	465,130	7%
M9 to M15	Speculative grade	2,637,293	37%	5,121,061	73%
M16 to M18	Close supervision	717,703	10%	947,430	13%
M19 & M20	Default	4,755	0%	520,322	7%
Total		**7,053,943**	**100%**	**7,053,943**	**100%**

or on terms mismatched in some other way (period, yield). By entering into a limited exposure to open interest rate risk positions, DEG generates income from maturity transformations. The strategic interest rate risk position is determined based on the budget and the fixed interest rates in the lending and borrowing business.

Foreign currency risk

Foreign currency risk is the risk of losses as a result of exchange rate movements unfavourable to DEG. DEG is only indirectly exposed to foreign currency risks in the context of its loans and equity participation business and its refinancing business. DEG is affected by exchange rate risks as a result of fulfilling its development mandate; these are hedged where possible and where appropriate in P&L terms.

Where feasible and appropriate, open foreign currency positions are closed by means of refinancing or hedging deals. The exceptions are deals in non-liquid currencies where trading in the financial markets is either very limited or not possible at all. For the US dollar, the term of the loan cash flow that requires hedging is taken into consideration in the macro control system. Micro hedges are used for other currencies that require hedging. For participating interests, individual hedging for foreign currency risk is only carried out in exceptional cases.

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 (US dollar positions) and micro valuation units in local currency – currently the rouble, the Mexican peso, the South African rand, and the Turkish lira – are used for the purpose.

Additional information on how the valuation units figure on the balance sheet is available in the Appendix under Accounting/valuation criteria. DEG measures interest rate and foreign currency risks monthly based on economic indicators.

The economic capital requirement for interest rate and foreign currency risks 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 when a position is closed (value at risk, VaR). VaR is the maximum loss that will, with 99.96% probability, not be exceeded if a position is held for a defined length of time.

Of primary relevance to risk control is the economic risk capacity and hence the economic capital requirement per risk type. Where 90% of the stop-loss limit has been reached, any position control must have the express consent of the Management Board.

To examine the effects of extraordinary market fluctuations on the current portfolio, daily scenario calculations are additionally carried out for present values. These take account of regulatory requirements by considering an interest rate shift of +/-200 bps across all currencies simultaneously. The simulations apply to all the positions in DEG's asset book where interest rate risk applies. The limit set by the regulator is 20% of the liable equity capital. For foreign currency risk, on the other hand, calculations are carried out for a scenario involving an ad-hoc foreign exchange rate movement of 10%.

DEG issues a daily risk report, ensuring that up-to-date Information is available. This is supplemented by monthly reports and a previously introduced ad-hoc reporting system in case limits are breached.

The economic capital requirement for interest and foreign currency risks was as shown in the table below.

Liquidity risk

The liquidity risk can be subdivided into two variants: institutional liquidity risk and market liquidity risk. Institutional liquidity risk is the danger that DEG may not be able to meet its financial obligations at all, or not on time or in full (including withdrawal risk and maturity risk). This insolvency risk on the part of DEG is significantly limited by the existing refinance commitment by KfW, which assures DEG of access to liquidity via KfW. So any risk affecting DEG's solvency is directly linked to the group's liquidity risk. The risk associated with the banking group's solvency at all times is measured and controlled by KfW. DEG is responsible for independently measuring and managing its own liquidity. Ultimately, DEG is only exposed to liquidity risk in the stricter sense to a very minor degree, so it does not carry out a risk assessment.

Economic capital requirement

EUR million	31 Dec. 2013	31 Dec. 2014
Market price risks	250	277
of which interest rate risks	103	102
of which foreign currency risks	147	175

The institutional liquidity risk is countered by secure liquidity provision at an appropriate level, by careful management and planning of payment flows from the finance business and from refinancing, and by short- and medium-term liquidity planning. Liquidity risks are limited by an indicator to safeguard minimum liquidity. At the balance sheet date, this amounted to 10% of non-disbursed commitments. This safeguards one month's disbursements during normal business operations. If DEG falls short of the liquidity limit, the Management Board is immediately informed.

Market liquidity risk is the danger of losses if DEG is unable, due to insufficient liquidity in the market, to trade assets or financing funds at all, in a timely manner, fully or in sufficient number, or at fair market conditions. In DEG's case, this only applies to liabilities. Here, the risk is that refinance could only be obtained at a higher price via KfW, and this higher price could not be passed on to the clients at all or only in part. This risk is measured using stress testing and countered by secure liquidity provision at an appropriate level, by careful management and planning of payment flows from the finance business and from refinancing, and by short- and medium-term liquidity planning. Treasury ensures that liquidity costs are covered by the margin in the context of systemic pricing. For exotic currencies, the liquidity costs are individually calculated for each involvement. Results to date show that the impacts on DEG's profitability, financial position or net worth position are minor ones.

Operational risk

Operational risks are defined as the danger of losses occurring due to shortcomings or failures of internal processes, personnel or systems, or because of external events. This definition includes legal risks, but excludes strategic risks.

Any losses above a minimum level of EUR 1,000 are recorded in an OpRisk events database. In addition, operational risks are systematically recorded in annual risk assessments. In these risk assessments, operational risks are measured on the basis of expert appraisals supported by data. In DEG's case, potential for losses exists mainly due to fraud in relation to the funds employed, to documents and/or bonds & notes, and to payment transactions.

Where unavoidable internal or external events occur, Business Continuity Management (BCM) describes a holistic management process that involves all aspects required to carry out critical business processes and reduce losses. BCM takes account of both preventative and reactive components (contingency planning and emergency & disaster recovery respectively).

Operational risks in the field of data processing are much lower by comparison with commercial banks, but still need to be recorded and assessed. The operational processes for IT are defined based on ITIL standards, regularly monitored in-house, and reviewed at least once a year by Internal Audit. Controls have been defined for the processes. IT strategy is in line with DEG's corporate strategy. It is updated annually and approved by the Management Board. DEG has access to a back-up computer centre. For insurable risks (e.g. fire or water damage), DEG has comprehensive insurance cover.

The risk of failing to meet long-term corporate goals based on underlying business assumptions and forecasts is dealt with by continuously aligning new business and the portfolio with DEG's corporate policy development mandate, as well as by monitoring market conditions and conditions governing competition. Strategies and financial planning are developed using a systematic multi-year planning process, and the resulting investments and measures are regularly reviewed along with the portfolio mix.

Reputational risks are dealt with by carefully selecting, managing and supervising involvements by using DEG's Corporate Policy Project Rating, by performing money laundering checks, maintaining representative offices, carrying out ongoing training, and exchanging ideas. In this context, special attention is paid to identifying and controlling any risks associated with the finance business that are caused by failing to meet environmental and social standards.

Operational risks in the human resources field are dealt with mainly through organisational arrangements such as the two pairs of eyes principle, allocation of roles and responsibilities, and IT-based controls, as well as by ensuring that members of staff have the required level of qualification. The careful selection of qualified experts and ongoing training measures ensure that DEG can be confident in the judgements made when the quality of finance is assessed or board mandates are exercised. Job descriptions, including specification of tasks and competencies, are defined in keeping with MaRisk requirements.

Legal risks play a comparatively important role for DEG, since its business operations extend across many countries with a variety of different legal systems. The aim is to rule out risks to DEG's legal positions as far as possible by reviewing the formal and actual legal framework in investment countries. DEG employs its own qualified staff in its legal department.

Concentration risk

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

The effects of superordinate risks are implicitly contained within the risks inherent in all other types of risk. Additionally, as part of the risk strategy, limits are set for observed risk concentrations (e.g. the financial sector in Latin America).

Other risks

In its risk inventory, DEG assesses all types of risk within a defined risk universe at least once a year for relevance and significance. In 2014, DEG included the following relevant but insignificant risk types as a group under “other risks”:

- Reputational risk: danger of a deterioration of the public perception of DEG by relevant internal and external interest groups, with adverse consequences for DEG.
- Business risk (distribution risk and risk due to a change in the legal or (economic) policy framework): the danger of losses due to unexpected variations in results caused by external factors.
- Strategic risk: danger of losses (in value) or a deterioration in the liquidity situation because of in-house decisions to do with DEG’s fundamental strategic direction and development of its business operations, because of inadequate supervision of the way strategies are being implemented, or because of the sustained pursuit of unprofitable business activities, while still observing DEG’s development mandate.
- Underwriting risk: danger of losses as a result of unexpected underwriting losses, which may arise from actively underwriting life or damage insurance risks (e.g. by a group member in the insurance sector), or from risks resulting from pension commitments.
- Real estate risk: danger of losses (in value) when real estate used by DEG or third parties, which is owned either directly or indirectly through real estate funds or companies, is hit by rent defaults, partial write-downs, or other (disposal) losses.
- Project risk: danger of losses due to events or circumstances resulting in particular from unsubstantiated planning assumptions that have an impact during the implementation phase which affects the achievement of the project goal in terms of cost, time or quality.
- Leverage risk: danger of losses on the part of DEG as a result of excessive debt in the sense of too low a leverage ratio or a shortfall in reported equity ratio leading to unintended corrections to the business plan (e.g. forced sale of assets at a loss).
- Derivatives risk: danger of loss (in value) or an impaired liquidity situation associated with derivatives deals (swaps, options, forwards/futures, credit default swaps) or with embedded derivatives (borrowers’, issuers’ and debtors’ contractual voting rights).
- Model risk: danger of losses (in value) or an impaired liquidity situation if inadequate, unsatisfactory or badly parameterised (risk) models are used by DEG.

These risks are managed based on the relevance of the individual risk type for DEG.

Essentially, the risk management system detailed above is not capable of reducing and avoiding operational and external risks altogether. In 2014 there was no evidence of significant loss events and no indication of potential losses arising from the relevant risk types.

By applying MaRisk mutatis mutandis, DEG has a model of risk management that works and is compatible with its business model. For any other issues arising, it is integrated into KfW’s corporate system of risk measurement and control.

In the period under review, both regulatory and economic risk 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 start to have an impact. No risks or developments are currently identifiable which could have a material effect on the future performance of the business.

Cologne, 12 February 2015
The Management Board

››› Annual statements of accounts 2014

BALANCE SHEET

PROFIT AND LOSS ACCOUNT

APPENDIX

BALANCE SHEET AT 31 DECEMBER 2014

With previous year's figures for comparison

ASSETS			31 Dec. 2014	31 Dec. 2013
A. Fixed assets	**EUR**	**EUR**	**EUR**	**EUR thousand**
I. Intangible assets				
1. Industrial property rights and similar rights and assets, including licences on such rights and assets			1,736,552	560
2. Payments in advance			0	1,539
			1,736,552	2,099
II. Tangible assets				
1. Land and buildings		44,420,913		48,064
2. Office equipment		2,951,790		3,547
3. Payments in advance		4,272,734		409
			51,645,437	52,020
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	1,000,393,062			936,787
b) Lendings to undertakings in which DEG has a participating interest	160,661,742			149,498
c) Other lendings	3,626,347,793			3,105,955
		4,787,402,597		4,192,240
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	122,537,457			133,253
b) Other lendings	1,747,566			793
		124,285,023		134,046
			4,911,687,620	4,326,286
Total A. (I + II + III)			4,965,069,609	4,380,405
B. Current assets				
I. Debtors and other assets				
1. Amounts owed from investment activities		62,228,521		55,896
of which amounts owed by undertakings in which DEG has a participating interest		4,211,620		3,338
2. Amounts owed from disposal of investments		1,543,514		14,416
3. Amounts owed from consultancy and other services		203,314		273
4. Other assets		59,810,951		91,686
			123,786,300	162,271
II. Bonds and notes			1,100,493	2,814
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			167,206,407	167,281
Total B. (I + II + III)			292,093,200	332,366
C. Accruals and deferrals			334,435	265
D. Assets held under trust			60,798,078	71,588
Total assets			**5,318,295,322**	**4,784,624**

LIABILITIES			31 Dec. 2014	31 Dec. 2013
A. Shareholders' equity	**EUR**	**EUR**	**EUR**	**EUR thousand**
I. Subscribed capital				
1. Subscribed capital		750,000,000		750,000
2. Subscribed capital unpaid		–122,147,630		–122,148
Called up capital			627,852,370	627,852
II. Appropriated surplus				
1. Purpose-tied reserve fund				
as at 1 January	16,749,000			20,000
Transfer from net income for previous year	0			0
Withdrawal reserve fund	–5,227,000			–3,251
as at 31 December		11,522,000		16,749
2. Other appropriated surplus				
as at 1 January	1,181,295,298			1,048,985
Transfer from net income for previous year	81,516,000			132,310
as at 31 December		1,262,811,298		1,181,295
			1,274,333,298	1,198,044
III. Net profits			168,854,085	81,516
Total A. (I + II + III)			2,071,039,753	1,907,412
B. Provisions for liabilities and charges				
1. Provisions for pensions and similar obligations		85,764,411		79,831
2. Provisions for taxation		0		8,680
3. Other provisions		23,315,605		28,798
Total B. (1 + 2 + 3)			109,080,016	117,309
C. Creditors				
1. Amounts owed for financing investment activities		2,928,113,101		2,645,983
2. Trade creditors		1,581,222		1,750
3. Other creditors		147,683,153		40,582
of which tax payable		10,124,304		836
of which social security		13,288		0
Total C. (1 + 2 + 3)			3,077,377,476	2,688,315
D. Liabilities for assets held under trust			60,798,078	71,588
Total liabilities			**5,318,295,322**	**4,784,624**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2014

With previous year's figures for comparison

INCOME		1 Jan.–31 Dec. 2014 EUR	1 Jan.–31 Dec. 2013 EUR thousand
1. Income from participating interests		24,016,717	32,242
2. Income from long-term lendings		210,646,246	204,136
of which from affiliated enterprises		3,241,411	1,613
3. Other interest receivable and similar income		717,961	985
of which from affiliated enterprises		60,337	39
4. Income from write-ups and write-back of provisions in respect of lending business and participating interests			
a) Write-up of financial fixed assets	95,456,964		72,905
b) Write-up of amounts owed from investment business and from disposal of investments	1,664,050		1,141
c) Write-back of provisions in respect of lending business and participating interests	809,000		7,269
		97,930,014	81,315
5. Other operating income			
a) from disposal of participating interests	171,929,472		56,577
b) from consultancy services	4,163,603		4,790
c) from trust transactions	518,337		522
d) from other services	10,662,264		8,776
e) other	37,330,231		44,753
		224,603,907	115,418
Total income		**557,914,844**	**434,096**

CHARGES		1 Jan.–31 Dec. 2014 EUR	1 Jan.–31 Dec. 2013 EUR thousand
6. Depreciation, value adjustments and provisions in respect of lending business and participating interests			
a) Depreciation and value adjustments in respect of financial fixed assets	218,398,424		173,967
b) Depreciation and value adjustments in respect of amounts owed from investment business and disposal of investments	7,393,456		8,906
c) Provisions in respect of lending business and participating interests	689,000		2,211
		226,480,880	185,084
7. Interest payable and similar charges		21,226,908	19,235
of which to affiliated enterprises		16,699,455	13,084
8. Staff costs			
a) Wages and salaries	45,959,458		44,545
b) Social security, pensions and other benefits	13,172,401		11,728
of which pensions	7,199,601		6,095
		59,131,859	56,273
9. Depreciation and adjustments for impairment of intangible and tangible assets		3,420,951	2,722
10. Other operating charges		68,801,079	58,324
Total (6+7+8+9+10)		**379,061,677**	**321,638**
11. Profit on ordinary activities		178,853,167	112,459
12. Tax on income and profit		15,140,514	34,186
13. Other taxes		85,569	8
14. Profit for the financial year		163,627,085	78,265
15. Withdrawal from purpose-tied reserve fund		5,227,000	3,251
16. Net profit		**168,854,085**	**81,516**

APPENDIX FOR THE 2014 FINANCIAL YEAR

GENERAL NOTES ON THE STATEMENTS OF ANNUAL ACCOUNTS

Form of Annual Accounts

The Balance Sheet and 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 Article 265 of the German Commercial Code (HGB). Itemisation in the Profit and Loss Account is based on income from participating interests.

In accordance with the provisions of the German Commercial Code and clarification by Article 1 of the Ordinance Regulating the Presentation of Accounts by Credit Institutions, DEG is exempt from the provisions on financial statement forms.

Accounting/Valuation criteria

Intangible and tangible assets acquired for a consideration are activated at original costs and subject to straight-line depreciation across their average useful life.

The choice to activate internally produced intangible assets under current fixed assets according to 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 Article 254 HGB (version in force until 28 May 2009) may be retained, is exercised for the building in respect of the one-off tax depreciation from the transfer of silent reserves as per Article 6b of German Income Tax Law (EstG).

Low value assets are dealt with in accordance with Article 6, Section 2 of German Income Tax Law, 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 address risk, DEG carries out risk provisioning for both identifiable and latent default risks in its financing portfolio. The value adjustments are set off in the respective asset items. For guarantees issued by DEG in respect of its finance business, provisions are made in the case of identifiable and latent risks that a claim will be made.

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..

Where market prices, e.g. stock market quotations, are available, DEG will verify whether, following a critical review of the assumptions underlying the valuation and pricing, the stock market price represents an appropriate valuation and should replace the Discounted Cash Flow 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 purchase price, taking the new findings into account. If a firm offer to purchase the participating interest has been received, the proposed purchase price replaces the DCF method as the basis for the value of the participating interest. Country risks are taken into account for participating interests by an upward adjustment of the discount factors. If the value of the participating interest as described above is lower than the purchase price or the lower book value, a corresponding value adjustment is made.

For lendings and bonds and notes under current fixed assets, the address non-payment risk of an involvement is initially identified by using trigger events to make a first assessment of whether provision for risk is generally required. If a trigger event has taken 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 continues to make a portfolio value adjustment for lendings without an individual value adjustment. Depending on the rating, the portfolio value adjustment is calculated based on the standard risk cost approach and takes into account both address non-payment risks and country risks.

Guarantees issued by DEG in respect of its finance business also take account of latent non-payment risks as per the method described above.

Amounts owed and other assets are recognised at their nominal value. Actual default risks are catered for by value adjustments.

Assets that are exempt from creditor access and serve only to settle debts from pension liabilities under the deferred compensation scheme were offset against those debts in the sum of EUR 1.1 million as at balance sheet date, as per Article 246 Section 2 Clause 2 of the German Commercial Code. The original costs and the fair value of the assets each amount to EUR 1.1 million as at 31 December 2014. The offset debts were discounted as at 31 December 2014 at a projected market interest rate (4.54%) resulting from an assumed residual maturity of 15 years. Charges and income of EUR 30,613 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.

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 anticipated demand and take all actual risks and liabilities of uncertain cost 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 published by Deutsche Bundesbank.

Amounts owed are recorded as liabilities with repayment amounts.

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

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

A small number of lendings not hedged and denominated in foreign currency are valued at the mean rate of exchange at the balance sheet date, taking original cost into account as the upper value limit. Overnight and time deposits and balances with banks are valued at the mean rate of exchange at the balance sheet date.

Other assets, debts and pending foreign currency transactions are summarised in valuation units pursuant to Article 254 of the German Commercial Code. Along with one macro valuation unit for assets, debts and pending transactions in USD, additional micro valuation units were established for the other foreign currencies (RUB, MXN, ZAR, TRY). The foreign currency valuation units are reported in the balance sheet using the gross hedge presentation method.

In accordance with DEG's risk strategy, currency risks are hedged against contrary changes in value in foreign currency cash flows from lendings and bonds and notes under current fixed assets, matching currency refinance or pending foreign currency transactions. For the macro valuation unit in USD, all on-balance sheet activities in USD (lending/deposit activities) are considered jointly; the resulting (net) currency risk remaining is hedged with appropriate derivatives transactions. For the micro valuation units, the currency risks arising from individual basic transactions are hedged with individual hedging instruments. Currency risks are further limited depending on currency. The future effectiveness of the hedging relationship can therefore be assumed.

The macro valuation unit in USD comprises basic transactions in the form of lendings in foreign currency with a book value after deduction of individual value adjustments of EUR 3,071.3 million, bonds and notes under current fixed assets of EUR 21.5 million, and liabilities for the purpose of financing the investment business (borrowers' notes and overnight loans) of EUR 2,089.2 million. The level of remaining (net) currency risks that required hedging was EUR 1,003.6 million in total as at 31 December 2014. This net position was hedged with off-balance sheet transactions (interest rate swaps and forward exchange deals) in the sum of EUR 1,126.3 million.

Due to a technical error, certain derivatives transactions entered into by DEG for the purpose of currency risk hedging have not yet been included in the valuation unit in USD under Articles 254 & 256a of the German Commercial Code, despite conditions being met. Due to the development of the exchange rate in the interim, provision for contingent losses in the amount of EUR 3.0 million was made in the annual statements of accounts as at 31 December 2013 for these transactions erroneously classed as free-standing. These contingent losses were offset by unrealised gains, not yet eligible for inclusion in the accounts, in other derivatives in corresponding amounts not associated with a valuation unit. In the course of compiling the present annual statements of accounts, the allocation and hence a correction was undertaken and the provision for contingent losses written back in full (permitted correction in current account).

At balance sheet date, the basic transactions subsumed into the macro valuation unit showed an unrealised currency gain of EUR 94.5 million. To hedge the currency risk, hedging transactions were used which conversely showed a market value of EUR -91.9 million at balance sheet date. The market values were determined using the dollar offset method.

The provision for contingent losses made in the 2013 financial year for the ineffective portion of the macro valuation unit was written back in full (EUR 2.6 million).

The micro valuation units comprise basic transactions in the form of lendings in foreign currency (without deduction of individual value adjustments) of EUR 172.2 million, which were hedged with off-balance sheet transactions (interest rate swaps) in the same amount.

At the effective date of 31 December 2014, 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 calculation, risk and administration costs are taken into account based on general assumptions, though tending towards an overestimate. The calculation shows no provisioning requirement as at 31 December 2014.

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 pursuance of Article 249 Section 1 Clause 1 of the German Commercial Code, this has resulted in provision for contingent losses of EUR 0.1 million. Accrued interest is recognised for all derivatives.

NOTES ON ASSETS

Fixed assets

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

Tangible assets

For 2014, depreciation came to EUR 2.6 million in total (previous year: EUR 2.4 million). This comprises depreciation on office furniture and equipment of EUR 1.3 million and on buildings equally of EUR 1.3 million.

For the 2009 financial year, depreciation on the DEG building in Kämmergasse included one-off tax depreciation under Article 254 of the German Commercial Code (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 Article 6b of German Income Tax Law. The 2014 annual result increased by the sum of EUR 30,000 as a result.

Land and buildings under tangible assets includes the sum of EUR 4.3 for an office building under construction in Cologne. The site, with an existing building, was purchased in 2012.
The original purchase cost of EUR 2.5 million and the accumulated depreciation for the building of EUR 0.2 million during the period of third-party use were previously transferred from land and buildings. Since the site was purchased with the intention to demolish, no further depreciation was calculated in respect of the building after a demolition permit was granted in October 2014.

Investments in partner countries

This item shows investments from funds on own account of EUR 4,787.4 million, which are made up of participating interests and lendings. Investments from trust funds of EUR 60.8 million are itemised as assets held under trust.

Own-account investments were made in 571 enterprises in 82 countries. These included three enterprises where the investments were part-financed out of German federal trust funds and by other trustee lenders. In seven enterprises, third parties entered into risk subparticipations in the form of counter-guarantees.

Foreign currency lendings with a nominal value of EUR 3,423.4 million are almost wholly hedged by currency swaps and by taking up foreign currency loans.

Bonds and notes in current fixed assets

Bonds and notes in current fixed assets represents finance committed by DEG which has been securitised.

The item Bonds and notes under current fixed assets (EUR 122.5 million) comprises one convertible bond (EUR 13.0 million) and six further bonds (EUR 108.9 million). Accrued interest at balance sheet date was EUR 2.2 million. Portfolio value adjustment was EUR 1.7 million.

Movements in fixed asset balances

	Original costs				
	01 Jan. 2014	Additions	Book transfers	Disposals	31 Dec. 2014
	EUR	EUR	EUR	EUR	EUR
I. Intangible assets					
1. Purchased industrial property rights and similar rights and assets, including licences in such rights & assets	4,889,373	468,916	1,539,057	0	6,897,346
2. Payments in advance	1,539,057	0	–1,539,057	0	0
II. Tangible and intangible assets					
1. Land and buildings	55,906,121	0	–2,510,000	0	53,396,121
2. Office equipment	10,152,209	684,564	0	161,441	10,675,332
3. Payments in advance	409,044	1,548,213	2,510,000	0	4,467,257
Total (I + II)	72,895,804	2,701,694	0	161,441	75,436,057
III. Financial fixed assets					
1. Investments in partner countries					
a) Participating interests	1,159,738,773	249,997,858	0	164,948,858	1,244,787,773
b) Lendings to undertakings in which DEG has a participating interest	159,384,340	68,626,017	–18,304,290	39,051,685	170,654,382
c) Other lendings	3,356,654,773	1,347,452,919	18,304,290	763,162,114	3,959,249,868
Total 1 (a + b + c)	4,675,777,886	1,666,076,794	0	967,162,657	5,374,692,023
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	132,934,760	9,946,686	0	20,925,545	121,955,901
b) Other lendings	792,958	1,120,290	0	165,683	1,747,566
Total 2 (a + b)	133,727,718	11,066,976	0	21,091,228	123,703,467
Total III (1 + 2)	4,809,505,604	1,677,143,771	0	988,253,885	5,498,395,490
Total (I + II + III)	**4,882,401,408**	**1,679,845,465**	**0**	**988,415,326**	**5,573,831,547**

Movements in fixed asset balances (continued)

	Value adjustments		Book value	Depreciation
	Write-up	Accumulated depreciation	31 Dec. 2014	2014
	EUR	EUR	EUR	EUR
I. Intangible assets				
1. Purchased industrial property rights and similar rights and assets, including licences in such rights & assets	0	5,160,794	1,736,552	831,118
2. Payments in advance	0	0	0	0
II. Tangible and intangible assets				
1. Land and buildings	0	8,975,208	44,420,913	1,327,151
2. Office equipment	0	7,723,541	2,951,790	1,262,682
3. Payments in advance	0	194,524	4,272,733	0
Total (I + II)	0	22,054,068	53,381,989	3,420,951
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	46,340,173	244,394,711	1,000,393,062	86,966,082
b) Lendings to undertakings in which DEG has a participating interest	1,589,049	9,992,640	160,661,742	1,695,528
c) Other lendings	47,456,742	332,902,075	3,626,347,793	129,163,471
Total 1 (a + b + c)	95,385,964	587,289,426	4,787,402,597[1]	217,825,081
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	71,000	1,649,313	120,306,588[2]	56,478
b) Other lendings	0	0	1,747,566	0
Total 2 (a + b)	71,000	1,649,313	122,054,154	56,478
Total III (1 + 2)	95,456,964	588,938,739	4,909,456,751	218,060,855
Total (I + II + III)	**95,456,964**	**610,992,807**	**4,962,838,740**	**221,481,806**

[1] Of which EUR 57,277,731 secured by unfunded risk participation
[2] 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 undertakings in which DEG has a participating interest	26.5
c) Other lendings	643.5
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	14.9
b) Other lendings	0.2
Total	**685.1**

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

Amounts owed from investment activities

The EUR 44.6 million in amounts owed comprises largely dividends and interest due (including accrued interest at year end and commitment fees, as well as other amounts owed but not yet payable) and various reimbursement claims. This item also includes accrued interest from swap agreements (EUR 17.6 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 25.0 million), amounts owed by consortium partners (EUR 20.8 million) and by the tax office (EUR 10.1 million).

Bonds and notes under current assets

The item Bonds and notes under current assets comprises a bond acquired in the amount of EUR 1.1 million to hedge part-time work programmes for employees approaching retirement age.

Balances with banks

Balances with banks covers investments in the money market of EUR 122.7 million invested with the shareholder KfW as well as current account balances of EUR 44.6 million. These include corporate funds temporarily awaiting investment in enterprises in partner countries.

Assets held under trust

This item includes investments in partner countries from trust funds in the form of participating interests of EUR 14.4 million and lendings of EUR 41.0 million. Previously held trust funds from the Federal Ministry for Economic Cooperation and Development (BMZ) and the American development agency USAID, which related to a loan guarantee fund in Afghanistan, were transferred to the newly founded Afghan Credit Guarantee Foundation ACGF in Cologne at the end of 2014. Only EUR 0.4 million were still held in trust by DEG as at 31 December 2014 and are due to be transferred to the foundation after the final accounts are drawn up in 2015.
Amounts owed on a trust basis of EUR 5.0 million are also shown here.

EUR 32.8 million of lendings is accounted for by the “Federal Republic of Germany’s Lending Programme for Business Start-ups to Promote Start-ups of Small and Medium-sized Enterprises by Natural Persons in Developing Countries” based on special joint lending funds with partner countries or institutions.

Deferred tax assets

There are taxable temporary differences, arising especially from the transfer of hidden reserves as per Article 6b of German Income Tax Law (EstG) and from provision for risk, that result in deferred tax liabilities of EUR 0.2 million. These are offset by deductible temporary differences, especially from provisions and risk provisioning, which result in deferred tax assets in the amount of EUR 7.6 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/Called-up capital

After deduction of unpaid subscribed capital in the sum of EUR 122.1 million from subscribed capital (as per Article 272 Section 1 Clause 3 of the German Commercial Code), called up capital comes to EUR 627.9 million.

Sole shareholder is KfW, Frankfurt am Main.

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					
1. from investment activities	62.2	–	–	–	62.2
2. from disposal of investments	1.5	–	–	–	1.5
3. from consultancy and other services	0.2	–	–	–	0.2
Other assets	58.1	0.6	1.1	–	59.8
Total	**122.0**	**0.6**	**1.1**	**0.0**	**123.7**

As a subsidiary of KfW, Frankfurt am Main, DEG is included in the consolidated accounts. These, along with the management report, may be obtained from KfW.

As a general rule under DEG's Articles of Association, profits are not distributed. Therefore, the limitation of profits distribution provided for by Article 268 Section 8 of the German Commercial Code does not apply.

Purpose-tied reserve fund for complementary measures

Complementary measures are designed to enhance the developmental impacts of existing DEG financial involvements and create improved conditions to facilitate new ones. They include in particular: enterprise-level training and qualification measures, complementary environmental and social measures, pre-investment studies, specific consultancy measures, and the assignment of external experts. Following their transfer to reserves, the funds are deployed for up to five years.

In the 2014 financial year, the sum of EUR 5.2 million was transferred from existing reserves for such measures.

Provisions for pensions and similar obligations

In accordance with Article 253 Section 2 Clause 2 of the German Commercial Code, provisions were discounted across the board at the average market interest rate which results from an assumed residual maturity of 15 years. An interest rate of 4.54% was determined by DEG's actuaries (the actuarial rate published by Deutsche Bundesbank was 4.53%). This compared to the previous year's rate of 4.89%. A rise in annual salaries of 2.8% and a pension rise of 2% or 1% respectively was assumed, depending on remuneration or pension scheme.

Other provisions

Other provisions largely cater for risks in respect of loan financing for sureties and guarantees of EUR 6.2 million.

The item also includes provisions for variable remuneration (EUR 6.3 million), part-time work programmes for employees approaching retirement age (EUR 2.3 million), leave and compensation for overtime (EUR 2.3 million) as well as anniversaries (EUR 1.0 million).

Amounts owed for financing investment activities

Amounts owed here refers specifically to loans against borrowers' notes in the amount of EUR 2,648.5 million placed with the shareholder KfW Bankengruppe (previous year: EUR 2,591.1 million).

Other amounts owed

Other amounts owed includes specifically EUR 94.5 million in balancing items for accountancy purposes relating to foreign currency transactions in respect of the macro valuation unit in USD, EUR 21.3 million in liabilities in respect of consortium partners and borrowers, EUR 10.1 million in tax owed, EUR 7.9 million in liabilities in respect of project sponsors, and EUR 6.5 million in respect of the Bill & Melinda Gates Foundation.

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	361.9	518.2	1,833.9	214.1	2,928.1 [1]
2. Amounts owed to trade creditors	1.6	–	–	–	1.6
3. Other amounts owed	140.0	0.5	7.2	–	147.7
Total	**503.5**	**518.7**	**1.841.1**	**214.1**	**3,077.4**

[1] of which EUR 2,923.1 million to the shareholder (previous year: EUR 2,641.2 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 57.9 million from BMZ, EUR 2.5 million from the Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMU), and residual sums totalling EUR 0.4 million from the loan guarantee fund in Afghanistan and the US development agency USAID.

Deferred tax liabilities

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

NOTES ON INCOME

Income from participating interests and 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. Breakdown by region (excluding the results from hedging transactions of EUR -4.8 million) is as follows:

EUR million	2014	2013
Africa	44.6	41.7
America	72.5	67.4
Asia	81.2	81.9
Europe	41.1	43.1
Total	**239.4**	**234.1**

Other interest receivable and similar income

For the most part, this item includes income from sureties and guarantees (EUR 0.5 million), balances at banks (EUR 0.1 million) and interest receivable as per Article 233a of the German Fiscal Code (AO) in respect of corporate and trade tax (EUR 0.1 million).

Other operating income

This item includes in particular income from the disposal of participating interests (EUR 171.9 million), realised gains from exchange rate movements (EUR 13.5 million), income from other services (EUR 10.7 million) and from consultancy (EUR 4.2 million).

Income of EUR 11.1 million (previous year: EUR 3.9 million) resulted from foreign currency valuation as per Article 256a of the German Commercial Code, where residual maturity is a year or less.

Out-of-period income of EUR 7.2 million in total resulted from the write-back of other provisions; of this, EUR 5.6 million related to the write-back of provision for contingent losses in respect of derivatives.

NOTES ON CHARGES

Interest payable and similar charges

These charges were incurred largely on loans against borrowers' notes and bank loans (EUR 9.7 million) as well as the net result from derivatives hedging (EUR 3.1 million). In addition, there was a charge relating to the sale of derivatives (EUR 4.0 million). For the 2014 financial year, the item also includes interest charges from the compounding of interest on pension and other long-term provisions in the sum of EUR 4.1 million (previous year: EUR 3.9 million).

Staff costs

The charges for pensions and similar obligations of EUR 7.2 million consist largely of the transfer to provisions for pensions, including early retirement (EUR 5.9 million) and contributions to the Pension Association of Publicly Sponsored Companies (Versorgungsverband bundes- und landesgeförderter Unternehmen e.V. VBLU) (EUR 1.2 million).

Other operating charges

This item includes in particular charges for expert consultants and advisers (EUR 18.2 million), realised charges in respect of interest rate movements (EUR 17.9 million), charges in relation to travel expenses (EUR 4.7 million), to forward exchange transactions (EUR 2.0 million) and to foreign currency valuation as per Article 256a of the German Commercial Code, where residual maturity is a year or less (EUR 6.1 million, previous year: EUR 8.7 million).

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

In the 2014 financial year, the following auditing fees were taken into consideration:

2014	**EUR**
Auditing fee	494,987
Other certification services	22,891
Tax consultancy services	23,815
Other services	314,811
Total	**856,504**

The statement of fees for auditing and other services includes charges for 2013 of EUR 24,898 which were not covered by corresponding provisions.

In the statement of fees for other certification services and tax consultancy services, write-backs of provisions from 2013 in the sum of EUR 3,325 are offset.

Taxes on income and profit

Tax charges of EUR 15.1 million in total are made up of tax on profits for the 2014 financial year of EUR 13.8 million and foreign tax charges of EUR 1.3 million.

PROFIT FOR THE FINANCIAL YEAR/NET INCOME

Net income for the financial year of EUR 168.9 million exceeds the profits for the financial year by EUR 5.2 million, the sum withdrawn from the purpose-tied reserve fund; as stipulated in the Articles of Association, it may not be distributed.

NOTES ON DERIVATIVES TRANSACTIONS

In the context of its risk management, DEG regularly engages in futures trading and makes use of derivatives products. These instruments are not used for trading purposes in the sense of items posted in the trading book, but are primarily deployed 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 in-house 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 14.2 million for eight enterprises as collateral for borrowing.

In relation to one individual case, provision of EUR 5.5 million was made in respect of the possibility that contingent liabilities may be incurred. Provision of EUR 0.6 million was made for potential risks.

At the balance sheet date, DEG's shares in three participating interests with a book value of EUR 12.7 million were pledged as collateral in respect of liabilities of the enterprises in question.

Given the enterprises' credit ratings, 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 0.8 million annually under tenancy agreements that run until 2020.

A total of EUR 0.6 million will be payable in fees on leasing contracts for the remaining term until 2017.

Obligations from undisbursed participating interests and lendings amount to EUR 1,543.1 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 company in question. In cases where no effective insurance cover exists, liability risks may arise for DEG.

Derivatives transactions

Volumes

EUR million	Nominal values		Positive market values	Negative market values
	31 Dec. 2013	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014
Contracts with interest rate risks				
Interest rate swaps	1,056.9	694.5	44.6	2.3
Interest rate options				
Long	-	-	-	-
Short	-	-	-	-
Interest rate cap agreements	-	-	-	-
Other interest rate derivatives transactions	-	-	-	-
Total interest rate risks	1,056.9	694.5	44.6	2.3
Contracts with currency risks				
Forward foreign exchange transactions, swaps	134.8	90.1	0.0	2.5
Currency and cross-currency interest rate swaps	1,223.4	1,314.6	45.2	102.5
Foreign currency options				
Long	-	-	-	-
Short	-	-	-	-
Other forward supply transactions	-	-	-	-
Total currency risks	1,358.2	1,404.7	45.2	105.0
Total	**2,415.1**	**2,099.2**	**89.8**	**107.3**

Counterparties

EUR million	Nominal values		Positive market values	Negative market values
	31 Dec. 2013	31 Dec. 2014	31 Dec. 2014	31 Dec. 2014
OECD banks	2,415.1	2,099.2	89.8	107.3
Banks outside the OECD	-	-	-	-
Other counterparties	-	-	-	-
Other agencies in the OECD	-	-	-	-
Total	**2,415.1**	**2,099.2**	**89.8**	**107.3**

Maturities

Nominal values, EUR million	Interest rate risks		Currency risks	
	31 Dec. 2013	31 Dec. 2014	31 Dec. 2013	31 Dec. 2014
Residual maturities				
up to 3 months	0.0	0.0	200.7	91.2
more than 3 months up to 1 year	351.9	0.0	75.0	20.6
more than 1 up to 5 years	630.0	644.5	711.7	935.1
more than 5 years	75.0	50.0	370.8	357.8
Total	**1,056.9**	**694.5**	**1,358.2**	**1,404.7**

AVERAGE NUMBER OF STAFF OVER THE YEAR

Staff not covered by regular pay scales and senior executives	328
Staff covered by regular pay scales	173
Total	**501**
Number of female staff	260
Number of male staff	241
Total	**501**

These figures include part-time staff (115) and temporary staff (27), 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 30,035, of which EUR 19,000 was made up of annual remuneration for membership of the Supervisory Board and its committees; attendance fees and daily allowances and travel expenses accounted for EUR 11,035.

Management Board remuneration for the 2014 financial year came to EUR 1,431,283 in total. Current annual salary components were set at a uniform rate for all members of the Management Board and amount to EUR 1,034,835. Overall remuneration further includes a sum of EUR 49,635 for benefits in kind and other emoluments. The performance-related bonus for 2013 was EUR 226,197, of which EUR 113,099 will be paid out over several years. In 2014 staggered payments of EUR 120,615 were made from the deferred bonuses for 2011 to 2013.

Total payments made to former members of the Management Board and surviving dependants amounted to EUR 761,337. Pension provisions for these persons amounted to EUR 10,223,788.

Information on DEG's investment holdings as of 31 Dec. 2014 as per article 285, no. 11 HGB (from 20%)

	P. No.	Business name and registered office	Currency[1]	Rate 1.00 EUR = … CU[2] (as at 31 Dec. 2014)	DEG holding in per cent	Equity in TCU[3]	Result in TCU[3]
A. Home							
1.	P 4216	PCC-DEG Renewables GmbH Duisburg, Germany	EUR	1.00000	40.00%	18,937	612
B. Abroad							
	I. Africa						
2.	P 1147	Banque Nationale de Développement Agricole Bamako, Mali	XOF	655.95700	21.43 %	27,574,677	5,562,200
3.	P 4181	Tourism Promotion Services Ltd. Kigali, Ruanda	RWF	836.48000	26.67 %	10,853,896	415,419
4.	P 4300	Global Credit Rating Company Ltd. Sandton, Johannesburg, South Africa	USD	1.21410	25.10%	871	2,599
5.	P 4422	Banyan Tree Growth Capital LLC Port Louis, Mauritius	USD	1.21410	27.00%	85,919	-11,806
6.	P 5122	Berkeley Energy Wind Mauritius Ltd. Ebene, Mauritius	EUR	1.00000	26.50%	72,852	-6,862
7.	P 5793	The Kibofund II LLC Ebene, Mauritius	USD	1.21410	25.00%	[4]	[4]
	II. America						
8.	P 2782	The SEAF Central and Eastern Europe Growth Fund, Washington D.C., USA	USD	1.21410	23.90%	6,921	262
9.	P 3977	SAE Towers, L. P., Washington D.C., USA	USD	1.21410	26.92%	[6]	[6]
10.	P 4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund L. P.	USD	1.21410	24.37%	56,831	6,666
11.	P 4557	Tolstoi Investimentos S. A. São Paulo, Brazil	BRL	3.22635	31.14%	55,279	17,555
12.	P 4580	Acon Latin American Opportunities Washington D.C., USA	USD	1.21410	39.99%	82,729	16,271
13.	P 4942	EMX Capital Partners LP Mexico City, Mexico	USD	1.21410	20.08%	8,195	1,568
14.	P 5010	Stratus Capital Partners São Paulo, Brazil	BRL	3.22635	24.00%	[5]	[5]
15.	P 5102	Worldwide Group, Inc. Morning Star Charlestown, St. Chr. und Nevis	USD	1.21410	32.28%	20,435	1,412
16.	P 5140	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet	BRL	3.22635	39.69%	29,525	193
17.	P 5142	Russia Partners Technology Fund LP New York, USA	USD	1.21410	21.59%	53,507	18,572
18.	P 5194	Desarrollos Eolicos Mexicanos de Oaxaca 2, S.A.P.I. de C.V. Mexico D.F., Mexico	USD	1.21410	27.78%	–24,823	–17,731
19.	P 5240	Grassroots Business Investors Fund I L.P. Washington D.C., USA	USD	1.21410	30.90%	18,913	–923
20.	P 5321	Adobe Social Mezzanine Fund, L.P. Mexico City, Mexico	USD	1.21410	24.75%	1,822	–1,012
21.	P 5331	CoreCo Central America Fund I L.P. Miami, Florida, USA	USD	1.21410	20.00%	10,305	–728
22.	P 5415	ARKENUX S.A. Montevideo, Uruguay	UYU	29.14900	38.00%	892,458	–2,053
23.	P 5515	MGM Sustainable Energy Fund L.P. Toronto, Canada	USD	1.21410	20.00%	365	–557
24.	P 5583	Acon Latin American Opportunities Fund IV-A, L.P., Washington D.C., USA	USD	1.21410	39.90%	822	–394
25.	P 5662	AQ Investments LLC, Miami, Florida, USA	USD	1.21410	28.08%	19,973	490

	P. No.	Business name and registered office	Currency[1]	Rate 1.00 EUR = … CU[2] (as at 31 Dec. 2014)	DEG holding in per cent	Equity in TCU[3]	Result in TCU[3]
	III. Asia						
26.	P 2502	H&Q Philippine Holdings, Inc. Manila, Philippines	PHP	54.46100	49.98%	[5]	[5]
27.	P 2787	Benetex Industries Ltd. Dhaka, Bangladesh	BDT	94.56845	28.30%	[6]	[6]
28.	P 3594	Jade Cargo International Co. Ltd. Shenzhen, China	CNY	7.53580	24.00%	[5]	[5]
29.	P 3763	HaPe International Ningbo Ltd. Ningbo, China	CNY	7.53580	37.50%	122,093	36,180
30.	P 3807	Zhejiang Wanfeng MotorcycleWheel Co. Ltd., Xinchang, China	CNY	7.53580	25.00%	868,429	189,927
31.	P 3878	Ace Power Pvt. Ltd. Colombo, Sri Lanka	LKR	159.28350	26.00%	3,045,462	842,363
32.	P 4518	OJSC Tourism Promotion Services Dushambe, Tajikistan	TJS	6.26281	21.00%	25,702	–18,313
33.	P 4538	Asia Insurance 1950 Company Ltd. Bangkok, Thailand	THB	39.89370	24.62%	250,617	40,714
34.	P 4545	WPD Energy Vietnam Company Ltd. Hanoi, Vietnam	VND	25965.49000	30.00%	–4,326,202	–2,219,477
35.	P 4976	Windprojektentwicklung Thailand Bangkok, Thailand	THB	39.89370	33.33%	10,563	–64
36.	P 5315	Nature Elements Asio RE&C Fund L.P. Hongkong, Hongkong	USD	1.21410	30.31%	3,041	–1,343
37.	P 5505	ADP Enterprises W.L.L. Manama, Bahrain	EUR	1.00000	23.50%	128,400	85,963
38.	P 5661	Grassland Finance Ltd. Hongkong, Hongkong	HKD	9.41700	26.00%	–1,273	–3,073
39.	P 5713	Orilus Investment Holdings Pte. Ltd Singapore, Singapore	USD	77.08850	32.98%	40,621	1,070
	IV. Europe						
40.	P 2562	TOO Knauf Gips Kaptschagaij GmbH Kapchagay, Kazakhstan	KZT	221.80000	40.00%	12,807	3,638
41.	P 3445	Tirana International Airport Partners SHPK, Rinas, Albania	EUR	1.00000	31.70%	25,536	6,596
42.	P 3511	Center–Invest Bank Rostov–on–Don, Russian Federation	RUB	72.33700	22.45%	8,752,407	1,409,883
43.	P 3665	TOO Isi Gips Inder Inderborskij, Kazakhstan	KZT	221.80000	40.00%	1,921,152	211,834
44.	P 4095	Emerging Europe Leasing and Finance (EELF) B.V., Amsterdam, Netherlands	EUR	1.00000	25.00%	18,637	1,518
45.	P 4193	Bucharagips AG Buchara, Uzbekistan	RUB	72.33700	25.00%	[6]	[6]
46.	P 4971	Knauf Gips Buchara OOO Buchara, Uzbekistan	UZS	2954.60000	24.88%	[6]	[6]
47.	P 5125	EMF NEIF I (A) L.P. Southampton, United Kingdom	USD	1.21410	28.29%	1,518	–613
48.	P 5506	CGFT Capital Pooling GmbH & Co. KG Berlin, Germany	USD	1.21410	39.90%	[4]	[4]
49.	P 5622	Microcredti Financial Institution Kontakt A.D., Podgorica, Montenegro	EUR	1.00000	26.32%	1,848	9

[1] ISO currency code.
[2] CU currency units in local currency.
[3] TCU = 1,000 local currency units.
[4] Enterprise in start–up phase; no annual statements of accounts available yet.
[5] Enterprise is being wound up. No annual statements of accounts available.
[6] No current annual statements of accounts available.

CORPORATE BODIES

Supervisory Board

Gudrun Kopp
Chairwoman
Parliamentary State Secretary,
Federal Ministry for Economic
Cooperation and Development,
Berlin
(up to 10 January 2014)

Hans-Joachim Fuchtel
Chairman
Parliamentary State Secretary
Federal Ministry for Economic
Cooperation and Development,
Berlin
(from 18 February 2014)

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

Corinna Linner
Second Deputy Chairwoman
Auditor

Eberhard Brandes
CEO, WWF Germany,
Berlin

Dr Harald Braun
State Secretary, Federal Foreign Office,
Berlin
(up to 20 January 2014)

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

Hartmut Koschyk
Parliamentary State Secretary
Federal Ministry of Finance,
Berlin
(up to 29 January 2014)

Dr Michael Meister
Parliamentary State Secretary
Federal Ministry of Finance,
Berlin
(from 14 February 2014)

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

Stephan Steinlein
State Secretary
Federal Foreign Office,
Berlin
(from 18 February 2014)

Brigitte Zypries
Parliamentary State Secretary
Federal Ministry for Economic
Affairs and Technology,
Berlin
(from 21 February 2014)

Management Board

Dr Michael Bornmann

Philipp Kreutz

Bruno Wenn (Chairman)

Cologne, 12 February 2015

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH

The Management Board
Dr Bornmann Kreutz Wenn

AUDITOR'S REPORT

We have audited the annual statements of accounts – 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 2014. Responsibility for keeping the books and records and preparing the annual statements of accounts and the management report in compliance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the Articles of Association rests with the company's Board of Management. 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 statements of accounts in accordance with Article 317 of the German Commercial Code (HGB) and in compliance with the German standards for auditing financial statements established by the Institut der Wirtschaftsprüfer (German Institute of Accountants – 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 position in the annual statements of accounts as prepared in accordance with German accounting principles, as well as 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 expectations relating to possible errors. The effectiveness of the accounting-related internal audit system and evidence supporting the amounts and disclosures in the books and records, the annual statements of accounts and the management report, are largely examined on the basis of spot checks. The audit includes an assessment of the accounting principles applied and of the main evaluations made by the members of the Company's Management Board, as well as an appraisal of the overall presentation of the annual statements of accounts and the management report. We believe that our audit provides a reasonable basis for our opinion. Our audit has not given rise to any objections.

In our judgement, based on the audit findings, the annual statements of accounts 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 position of the company in accordance with German accounting principles. The management report conforms to the annual statements of accounts, provides a true understanding of the Company's position overall and presents an accurate picture of the opportunities and risks of future development.

Düsseldorf, 16 February 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kügler	Lehnen
Auditor	Auditor

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