

TERMS SHEET

9 September 2014

To: **AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED**
(ABN 11 005 357 522)
ANZ Centre
833 Collins Street
Docklands VIC 3008
Australia

AND

**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED,
SYDNEY BRANCH**
(ABN 65 117 925 970)
Level 10
580 George Street
Sydney NSW 2000
Australia

From: **KfW**
Palmengartenstraße 5-9
D-60325 Frankfurt am Main
Germany

KfW - A\$30,000,000,000 NOTE PROGRAMME

We hereby confirm the following agreement for the issue by us of Notes, each having the terms and conditions set out below, and otherwise in accordance with the terms and conditions of the Deed of Terms and Conditions dated 16 March 2004 made by the Issuer, the Manager and the Registrar. Terms not defined herein have the meanings given to them in the Deed of Terms and Conditions.

Overall Note Details

Issuer:	KfW
Principal Amount (face amount) on the Issue Date of each Note:	A\$1,000 (Note: subject to minimum consideration within Australia of A\$500,000)
Number of Notes to be issued:	250,000 (to be consolidated and form a single Series with the 1,450,000 Notes comprising the Issuer's A\$650,000,000 3.75% Notes due 10 August 2017, issued on 10 August 2012, A\$350,000,000 3.75% Notes due 10 August 2017, issued on 22 November 2012, A\$250,000,000 3.75% Notes due 10 August 2017, issued on 4 October 2013 and A\$200,000,000 3.75% Notes due 10 August 2017, issued on 5 June 2014)
Total Principal Amount of the Series:	A\$1,700,000,000 (being the Total Principal Amount of this tranche with the A\$650,000,000 3.75% Notes

due 10 August 2017, issued on 10 August 2012, A\$350,000,000 3.75% Notes due 10 August 2017, issued on 22 November 2012, A\$250,000,000 3.75% Notes due 10 August 2017, issued on 4 October 2013 and A\$200,000,000 3.75% Notes due 10 August 2017, issued on 5 June 2014)

Type of Notes:

- ☐ Amortised Notes
- ☐ Dual Currency Notes
- ☒ Fixed Rate Notes
- ☐ Floating Rate Notes
- ☐ High Interest (premium) Notes
- ☐ Indexed Notes
- ☐ Low Interest (discount) Notes
- ☐ Structured Notes
- ☐ Zero Coupon Notes
- ☐ Other (specify)

Maturity Date:

10 August 2017

Issued at:

- ☐ Par
- ☐ Discount
- ☒ Premium

Purchase Price:

A\$256,072,500 (being 102.103 per cent. of the Principal Amount of A\$250,000,000 plus accrued interest payable for the period from and including 10 August 2014 to but excluding 11 September 2014 of 32 days of A\$815,000)

Issue Price:

A\$256,285,000 (being 102.188 per cent. of the Principal Amount of A\$250,000,000 plus accrued interest payable for the period from and including 10 August 2014 to but excluding 11 September 2014 of 32 days of A\$815,000)

Issue Date:

11 September 2014

Clearing System (if any):

- ☒ Austraclear
- ☒ Euroclear
- ☒ Clearstream Banking
- ☐ Other (specify): _____

On admission to the Austraclear System, interests in the Notes may be held through Euroclear Bank SA/NV as operator of the Euroclear System ("Euroclear") or Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). In these circumstances, entitlements in respect of holdings of interests in the Notes in Euroclear would be held in the Austraclear System by HSBC Custody Nominees (Australia) Limited as a nominee of Euroclear while entitlements in respect of holdings of interests in the Notes in Clearstream, Luxembourg would be held in the Austraclear System by a nominee of J.P. Morgan Chase Bank, N.A. as custodian for Clearstream, Luxembourg.

The rights of a holder of interests in Notes held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations for accountholders of Euroclear and Clearstream, Luxembourg, the terms and conditions of agreements between Euroclear and Clearstream, Luxembourg and their respective nominee and the rules and regulations of the Austraclear System.

Interest Calculation and Payment, Repayment

(a) Amortised Notes

Redemption Amount: N/A

Redemption Price: N/A

Reference Price: N/A

Other details (specify): N/A

(b) Dual Currency Notes

Rate of Exchange: N/A

Determination of:

- ♦ rate of interest: N/A
- ♦ accrual of interest: N/A
- ♦ interest amounts: N/A
- ♦ interest payment dates: N/A
- ♦ other (specify): N/A

(c) Fixed Rate Notes

Fixed Interest Rate(s): 3.75 per cent. per annum

Interest Payment Dates: 10 February and 10 August in each year from, and including, 10 February 2015 to, and including, the Maturity Date (subject to adjustment in accordance with clause 8.6 of the Deed of Terms and Conditions)

Redemption Amount: A\$1,000 per Note (100 per cent. of the Principal Amount)

Day Count Fraction:

- ☐ Actual/365 (fixed)
- ☐ Actual/365 or Actual/Actual (ISDA)
- ☐ 30/360, 360/360 or Bond Basis
- ☒ RBA Bond Basis
- ☐ 30E/360 or Eurobond Basis

(d) Floating Rate Notes

Floating Rate Basis: ☐ Bank Bill Rate

☐ Other (specify and detail source and procedures if not available)

Manner of determination:

☐ *ISDA Determination:*

- ♦ Floating Rate Option: N/A
- ♦ Designated Maturity: N/A
- ♦ Reset Date
 - ☐ BBSW
 - ☐ LIBOR
 - ☐ EURIBOR
 - ☐ Other (specify)
- ♦ Determined by
 - ☐ Manager
 - ☐ Other (specify)

or:

☐ *Screen Rate Determination*

- ♦ Reference Rate
 - ☐ BBSW
 - ☐ LIBOR
 - ☐ EURIBOR
 - ☐ Other (specify)
- ♦ Relevant Screen Page: N/A _____
- ♦ Determined by
 - ☐ Manager
 - ☐ Other (specify)

Margin(s) to Floating Rate Basis: +/- ____ per centum per annum

Minimum Interest Rate: N/A

Maximum Interest Rate: N/A

Interest Payment Dates: N/A

Additional Business Centre: N/A

Redemption Amount: N/A

Day Count Fraction:

- ☐ Actual/365 (fixed)
- ☐ Actual/365 or Actual/Actual (ISDA)
- ☐ 30/360, 360/360 or Bond Basis
- ☐ RBA Bond Basis
- ☐ 30E/360 or Eurobond Basis

Interest Determination Date: N/A

(e) **High Interest (premium) Notes**

Premium: N/A

Interest Rate see: ☐ (c)
☐ (d)

Amortisation Yield: N/A

Reference Price: N/A

Other details (specify): N/A

(f) **Indexed Notes**

Index: N/A

Specify method of calculation of Variable Indexed Amount: N/A

Details to include:

- ◆ Source for index: N/A
- ◆ Person responsible for calculations: N/A
- ◆ Provision for calculation on early redemption, where reference to Index or formula is impossible or impracticable etc): N/A

Base Index Figure \$: N/A

Interest Payment Dates: N/A

Redemption Amount: N/A

(g) **Low Interest (discount) Notes**

Discount Rate: N/A

Interest Rate see: ☐ (c)
☐ (d)

Amortisation Yield: N/A

Reference Price: N/A

Other details (specify): N/A

(h) **Structured Notes**

Describe characteristics: N/A

(Give details including, as required, source, calculation arrangements, alternatives etc)

(i) **Zero Coupon Notes**

Redemption Price: N/A

Amortisation Yield: N/A

(j) **Other Options** (Give details) N/A

Other Issue Details

Partly Paid Notes (details): N/A

Special Issuance Instructions: N/A

Other Special Conditions including, as appropriate:

Events Affecting Maturity: N/A

Put option (early redemption at the option of the Noteholders) (give details): N/A

♦ Clause 9.3 applies: ☐ Yes ☐ No

♦ Put Option Date(s)

or

Put Option Period: N/A

♦ Put Option applies to all Notes in Series

or

Details of Notes to which Put Option applies: N/A

Maturity Extension Option (option of the Noteholder to extend maturity, at the offer of the Issuer) (give details): N/A

Minimum notice: N/A

Other: Application has been made for the Notes to be listed on the Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691).

In relation to the Notes, the following additional terms and conditions shall apply:

In the fourth paragraph of clause 2.2 of the Deed of Terms and Conditions, the words “Australian System” are deleted and replaced with the words “Austraclear System”.

On and with effect from 20 July 2011, the Programme Limit was increased from A\$20,000,000,000 to A\$30,000,000,000.

The text of the Description of KfW, set out in the Information Memorandum dated 10 March 2004, as supplemented on 23 December 2005, 3 April 2006, 26 May 2008, 7 December 2009 and 20 July 2011, is replaced as set out in the Schedule to this Terms Sheet.

The above details are confirmed by the Issuer, in respect of:

ISIN: AU0000KFWHV4

Common Code: 081456976



.....
Klaus-Peter Eitel
Vice President



.....
Otto Weyhausen-Brinkmann
Vice President

9 September 2014

SCHEDULE

The text of the Description of KfW, set out in the Information Memorandum dated 10 March 2004, as supplemented on 23 December 2005, 3 April 2006, 26 May 2008, 7 December 2009 and 20 July 2011, is replaced as follows:

Overview

KfW is a public law institution (*Anstalt des öffentlichen Rechts*) serving domestic and international public policy objectives of the Federal Government ("**Federal Government**") of the Federal Republic of Germany ("**Federal Republic**").

KfW was established on November 5, 1948, under the KfW Law as a public law institution with unlimited duration. Its offices are located at Palmengartenstraße 5-9, 60325 Frankfurt am Main, Federal Republic. KfW also maintains branch offices in Berlin and Bonn, Federal Republic as well as a liaison office to the European Union in Brussels, Belgium.

According to Article 2 of the KfW Law, KfW's business purposes are the following:

- Performance of promotional tasks, in particular financings, pursuant to a state mandate in the following areas: financing of small and medium-sized enterprises ("**SMEs**"), liberal professions and business start-ups; risk capital; housing; environmental protection; infrastructure; technical progress and innovations; internationally agreed promotional programmes; development cooperation; and in other promotional areas, which are specifically stated in laws, regulations or published guidelines on state economic policy that are assigned to KfW by the Federal Republic or one of the federal state (each a "Land" and together, the "**Länder**");
- Granting of loans and other forms of financing to territorial authorities (Gebietskörperschaften) and special-purpose associations under public law (öffentlich-rechtliche Zweckverbände);
- Financing of measures with purely social goals as well as for the promotion of education;
- Granting of other financings in the interest of the German and European economy.

Except with a special mandate from the Federal Government, KfW may conduct other business only insofar as such business is directly connected with the performance of its functions described above. In such capacity, KfW may, in particular, purchase and sell claims and securities, incur obligations in the form of bills of exchange and promissory notes, and conduct its treasury and risk management. KfW may also refinance at market conditions the project and export finance subsidiary, KfW IPEX-Bank GmbH ("**KfW IPEX-Bank**"), which has been established as a result of the understanding with the European Commission (see "Relationship with the Federal Republic – Understanding with the European Commission").

KfW promotes its financing activities under the umbrella brand name KfW Bankengruppe. It conducts its business in the following business sectors:

- Mittelstandsbank (SME Bank) promotes SMEs, business founders, start-ups and self-employed professionals;
- Kommunal- und Privatkundenbank/Kreditinstitute (Municipal and private client bank/credit institutions) provides housing-related loans and grants as well as financing for education to private individuals, offers financing for infrastructure projects, primarily for

municipalities, and grants global funding instruments to promotional institutes of the German federal states (Landesförderinstitute) and other financial institutions;

- Export and project finance: KfW IPEX-Bank GmbH offers customised financing for exports and project and corporate financing worldwide. KfW IPEX-Bank is a legally independent entity wholly owned by KfW;
- Promotion of developing and transition countries: KfW Entwicklungsbank (KfW Development Bank) is responsible for KfW's public sector development cooperation activities, and DEG - Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Investment and Development Company; "DEG") finances private-sector investments in developing countries. DEG is a legally independent entity wholly owned by KfW; and
- Capital markets, which comprises KfW's treasury, funding, asset management and other capital markets-related activities.

Ownership

The Federal Republic holds 80% of KfW's subscribed capital, and the German *Länder* hold the remaining 20%. The Law Concerning KfW (*Gesetz über die Kreditanstalt für Wiederaufbau*, or the "**KfW Law**") does not provide for shareholders' meetings; instead, the Board of Supervisory Directors assumes the responsibilities of a shareholders' meeting.

Shares in KfW's capital may not be pledged; they may not be transferred to entities other than the Federal Republic or the *Länder*. Capital contributions have been, and are expected to continue to be, made to KfW in such proportions as to maintain the relative shares of capital held by the Federal Republic and the *Länder*.

Legal Status

KfW is organised under the KfW Law as a public law institution with unlimited duration. As a public law institution serving public policy objectives of the Federal Government, KfW itself is not subject to corporate taxes (although certain of its subsidiaries are) and as a promotional bank, KfW does not seek to maximise profits. KfW does, however, seek to maintain an overall level of profitability that allows it to strengthen its equity base in order to support its promotional activities. KfW is prohibited under the KfW Law from distributing profits, which are instead allocated to statutory and special reserves. KfW is generally also prohibited under the KfW Law from taking deposits or engaging in the financial commission business.

Relationship with the Federal Republic

Guarantee of the Federal Republic

The KfW Law expressly provides that the Federal Republic guarantees all existing and future obligations of KfW in respect of money borrowed, bonds and notes issued and derivative transactions entered into by KfW, as well as obligations of third parties that are expressly guaranteed by KfW (KfW Law, Article 1a). Under this statutory guarantee (the "**Guarantee of the Federal Republic**"), if KfW fails to make any payment of principal or interest or any other amount required to be paid with respect to securities issued by KfW, or if KfW fails to make any payment required to be made under KfW's guarantee when that payment is due and payable, the Federal Republic will be liable at all times for that payment as and when it becomes due and payable. The Federal Republic's obligation under the Guarantee of the Federal Republic ranks equally, without any preference, with all of its other present and future unsecured and unsubordinated indebtedness. Holders of securities issued by KfW or issued

under KfW's guarantee may enforce this obligation directly against the Federal Republic without first having to take legal action against KfW. The Guarantee of the Federal Republic is strictly a matter of statutory law and is not evidenced by any contract or instrument. It may be subject to defenses available to KfW with respect to the obligations covered.

Institutional Liability (Anstaltslast)

KfW is a public law institution (*Anstalt des öffentlichen Rechts*). Accordingly, under the German administrative law principle of *Anstaltslast*, the Federal Republic, as the constituting body of KfW, has an obligation to safeguard KfW's economic basis. Under *Anstaltslast*, the Federal Republic must keep KfW in a position to pursue its operations and enable it, in the event of financial difficulties, through the allocation of funds or in some other appropriate manner, to meet its obligations when due. *Anstaltslast* is not a formal guarantee of KfW's obligations by the Federal Republic, and creditors of KfW do not have a direct claim against the Federal Republic. Nevertheless, the effect of this legal principle is that KfW's obligations, including the obligations to the holders of securities issued by it or issued under KfW's guarantee, are fully backed by the credit of the Federal Republic. The obligation of the Federal Republic under *Anstaltslast* would constitute a charge on public funds that, as a legally established obligation, would be payable without the need for any appropriation or any other action by the German Parliament.

Understanding with the European Commission

In order to clarify that the Federal Republic's responsibility for KfW's obligations was and is compatible with European Union ("EU") law prohibitions against state aid, the German Federal Ministry of Finance and the European Commissioner for Competition held discussions which were formalised in an understanding reached on March 1, 2002. In the understanding with the European Commission, it was agreed that, in respect of the promotional activities for which KfW is responsible, KfW will continue to benefit from *Anstaltslast* and the Guarantee of the Federal Republic. The understanding acknowledged that KfW's role in providing financing for, in particular, small and medium-sized enterprises, risk capital, environmental protection, technology/innovation, infrastructure and housing, as well as its cooperation with developing countries, is promotional and thus compatible with EU rules.

In the area of export and project finance, the understanding with the European Commission required KfW to transfer to a legally independent subsidiary that portion of export finance and domestic and international project finance activities which the European Commission deemed to fall outside the scope of the promotional activities of KfW. The transfer of such activities was to be effected by December 31, 2007 and as from that date KfW has not been permitted to fund the subsidiary at other than market rates of interest or to extend to the subsidiary any benefits of *Anstaltslast* or the Guarantee of the Federal Republic.

KfW continues to be permitted, however, to engage directly in the following promotional export and project finance activities:

- implementation of international promotional programmes, such as the interest-rate subsidised CIRR (Commercial Interest Reference Rate) and ASU (Aircraft Sector Understanding – previously referred to as Large Aircraft Sector Understanding, LASU) schemes, which are recognised as promotional activities in accordance with the Organisation for Economic Cooperation and Development ("OECD") consensus;
- participation in syndicated financing activities outside the EU, the European Economic Area and countries holding the status of official candidate for EU membership, subject to

certain conditions, and sole financing activities in countries in which sufficient sources of financing do not exist; and

- participation in projects in the interest of the EU that are co-financed by the European Investment Bank or similar European financing institutions.

The European Commission transformed the understanding into a decision, which the Federal Republic formally accepted. A part of the Promotional Bank Restructuring Act (*Förderbankenneustrukturierungsgesetz*) implemented the understanding with the European Commission and amended the KfW Law accordingly.

On January 1, 2008, KfW IPEX-Bank, a limited liability corporation (*Gesellschaft mit beschränkter Haftung*) formed as a wholly owned subsidiary of KfW, commenced operations as a legally independent entity, thus satisfying the requirements set forth in the understanding with the European Commission. KfW IPEX-Bank conducts those export and project finance activities which the European Commission deemed to fall outside the scope of KfW's promotional activities directly and on its own behalf.

Supervision and Regulation

The Federal Ministry of Finance, acting in consultation with the Federal Ministry for Economic Affairs and Energy, exercises legal supervision (*Rechtsaufsicht*) over KfW, i.e., it supervises KfW's compliance with applicable law and may adopt all necessary measures to ensure such compliance. Legal supervision primarily comprises supervision of compliance with the KfW Law and KfW's By-Laws, but also with all other applicable laws and regulations except for certain provisions of bank regulatory law. The relevant Federal Ministers are represented on KfW's Board of Supervisory Directors, which supervises KfW's overall activities.

In addition to being subject to legal supervision by the Federal Ministries, in October 2013, KfW became subject to banking-specific supervision exercised by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, or "**BaFin**"). This supervision was established by a ministerial regulation (*KfW-Verordnung*, or "**KfW Regulation**"), which implements an amendment to the KfW Law which entered into force in July 2013. The KfW Regulation, while maintaining KfW's general exemption from bank regulatory law, specifies those provisions of bank regulatory law which are to apply to KfW by analogy and assigns the supervision of compliance with these provisions to BaFin. In exercising its supervision, BaFin cooperates with the German Central Bank (*Deutsche Bundesbank*) in accordance with normal bank supervisory procedures.

In addition to compliance with the financial reporting and auditing standards generally applicable to banks in Germany, KfW, under the KfW Law, is subject to special auditing standards for government-owned entities set forth in the Budgeting and Accounting Act (*Haushaltsgrundsatzgesetz*). These special auditing standards require that KfW's annual audit, above and beyond its normal scope, cover the proper conduct of KfW's business by its management. The resulting auditor's report is to enable the Board of Supervisory Directors, the responsible Federal Ministries, and the Federal Court of Auditors (*Bundesrechnungshof*) to form their own opinion and to take action if required.

Finally, as a government-owned entity, KfW is subject to audits by the Federal Court of Auditors with regard to its economical use of funds pursuant to the Budgeting and Accounting Act.

KfW is generally exempt from bank regulatory laws and regulations, as it neither qualifies as a "credit institution" or "financial services institution" within the meaning of the German

Banking Act (*Gesetz über das Kreditwesen*, or "**KWG**") or as a "credit institution" within the meaning of relevant EU directives and regulations, including in particular the EU Capital Requirements Directive IV ("**CRD IV**") and the EU Capital Requirements Regulation ("**CRR**"). However, by operation of the KfW Regulation, considerable parts of the KWG and the CRR, including relevant implementing rules and regulations, apply by analogy to KfW, with the bulk of rules and regulations applying with effect from January 1, 2016. The KfW Regulation takes into account KfW's special status not generally engaged in deposit taking, with a low-risk profile in its lending business and benefiting from the Guarantee of the Federal Republic, by providing for certain modifications and exceptions in connection with the analogous application of the relevant rules and regulations.

The analogous application of EU and national bank regulatory law imposed by the KfW Regulation is without prejudice to KfW's status as a "public sector entity" within the meaning of Article 4 (8) CRR. This status confers certain advantages to KfW's refinancing activities given the fact that exposures to public sector entities held by banks are privileged as to capital requirements, large exposures limitations and liquidity measurement under EU and national bank regulatory law.

Australian Banking Act

The Issuer is not a bank which is authorised under the Banking Act 1959 of Australia. Notes issued under the Programme are not the obligations of the Australian Government and are not guaranteed by the Commonwealth of Australia.