

Annual Report 2015

Financial year 2015: KfW's promotional business rises to EUR 79.3 billion due to strong demand

- **Commitments up by 6.0% to EUR 50.5 billion**
- **Increase in international financing to EUR 27.9 billion (+9.7%)**
- **High demand for climate and environmental financing amounting to EUR 29.5 billion (+11.0%)**
- **Refugee accommodation promoted with EUR 1.5 billion**
- **Commitment in the venture capital sector newly structured and expanded**

KfW Group registered very strong demand for its financing products in financial year 2015. The volume of new promotional commitments rose to a total of EUR 79.3 billion (2014: EUR 74.1 billion, +7.0%).

Domestic promotional business developed positively relative to the previous year, achieving a commitment volume of EUR 50.5 billion (2014: EUR 47.6 billion, +6.0%). This provided impetus for growth to the German economy. The increase can be attributed both to rising demand for financing from the commercial sector and strong demand for housing finance.

At EUR 27.9 billion, the volume of **international business** was 9.7% higher than in the prior year (2014: EUR 25.5 billion). In particular, there was a high level of demand for financing from KfW IPEX-Bank as a specialist in export and project finance. KfW Development Bank again recorded a large share of climate and environmental finance, above all in the financing of environmentally-friendly energy generation and supply.

As in previous years, KfW Group further consolidated its role as global leader in **climate and environmental finance** with financing commitments totalling EUR 29.5 billion (2014: EUR 26.6 billion, +11.0%).

"2015 was a very successful promotion year. With its promotional products, KfW played an important part in the modernisation of Germany and its social cohesion. We shall again be offering specific measures in 2016. In the years ahead, we will be providing two billion euros via the promotional institutions of the federal states for the construction of social housing", said Dr Ulrich Schröder, Chief Executive Officer of KfW Group.

KfW is supporting the German Federal Government, the federal states and municipalities in terms of **refugee aid**. The integration of international and domestic promotional activities is an important factor here. The special "refugee accommodation" facility launched in early September 2015 enabled

KfW to very rapidly make an important contribution to helping German municipalities accommodate refugees. The programme volume was swiftly increased from EUR 300 million to EUR 1.0 billion due to consistently high demand, and was finally topped up to a total of EUR 1.5 billion on 20 January 2016. This amount, which was already fully allocated in January 2016, will provide accommodation for up to 150,000 people.

"Never before in KfW's history has a financing offer taken effect as quickly as its "refugee accommodation" extraordinary promotion. No promotional programme has ever been so rapidly implemented and exhausted", Dr Schröder explained.

Internationally, the KfW Development Bank business area currently has about 70 ongoing projects relating to refugees in 20 countries with an overall volume of EUR 1.4 billion. A total of around EUR 570 million in new commitments is going to 38 projects that are providing direct support for the towns and villages taking in refugees in partner countries.

The **digitalisation of the promotional business** has made significant progress. One of the priorities here is to expand the "Bankdurchleitung Online 2.0" (BDO 2.0) promotional funding platform. In the housing promotional area, every second loan commitment is already made online in just a few seconds. With its digitalisation approach, KfW is systematically pursuing the aim of simplifying, standardising and automating its application and commitment processes. By the end of 2015, all financing partners had connected to the KfW promotional funding platform or were about to do so. Relevant financial intermediary platforms, as well as the promotional institutions of the federal states, are gradually being connected. The cornerstone for the processing of commercial products via BDO 2.0 was also laid in 2015.

Details on the business sectors' promotional results

As part of its **implementation of the "Juncker plan"**, KfW has signed two guarantee agreements with the European Investment Fund (EIF) within the SME window of the European Fund for Strategic Investments (EFSI). These allow for new loans totalling EUR 1.5 billion for young companies, start-ups and innovative companies. More financing and cooperation with the involvement of the EFSI is planned. Within the framework of its capital-market based SME financing activities, KfW is also involved in the European securitisation market. For the first time, KfW worked together with Cassa Depositi e Prestiti (CDP) and the EIF to provide financing for European SMEs by means of an Italian securitisation of lease receivables. This may well constitute a model for future closer cooperation between European promotional institutions, whose expansion has been another main focus of KfW's work in recent years.

"KfW is aware of its responsibilities towards the European unification process. The contribution we make strengthens economic development not only in Europe but here in Germany too", stated Dr Schröder.

The volume of new business in the **Mittelstandsbank** business sector last year amounted to EUR 20.4 billion (2014: EUR 19.9 billion). Demand for promotional loans on the part of companies proved to be far more robust overall than the year before.

With a promotional business volume of EUR 9.3 billion (2014: EUR 8.2 billion), the **environment** priority sector achieved strong growth in 2015. A EUR 3.8 billion volume of new business in the field of energy efficiency represents a very good result (2014: EUR 3.2 billion). A distinctly positive market response to the substantially improved energy efficiency programme launched in July contributed significantly to this. At EUR 4.5 billion, the KfW Renewable Energies Programme exceeded the figure for the previous year (EUR 4.1 billion). In 2015, KfW thus again made an important contribution towards achieving national environmental and climate targets.

A very strong result (EUR 3.7 billion) was achieved for the priority sector of **start-ups** (2014: EUR 2.8 billion). For the first time, the volume of new business for the promotion of start-ups was well in excess of EUR 3.0 billion. This was driven in particular by two factors: the expansion of the product range implemented in late 2014 and the attractive interest conditions.

In part thanks to low prevailing interest rates, commitments in the field of **innovation financing** came to EUR 0.8 billion (2014: EUR 1.4 billion). Innovation financing was significantly strengthened by the new strategic approach in equity finance. In the years to come, KfW will be supplying up to EUR 400 million to German and European venture capital funds via the new ERP Venture Capital Funds Investments. In total, this new form of equity finance will enable KfW to leverage as much as EUR 2.5 billion in private capital for innovative start-ups over the next few years.

Commitments in the area of **general corporate financing** declined to EUR 6.6 billion (2014: EUR 7.6 billion). Decreased demand for the Entrepreneur Loan, which had proved extremely popular in 2014, was the decisive factor behind this.

New commitments in the **Kommunal- und Privatkundenbank / Kreditinstitute** business sector amounted to EUR 30.1 billion (2014: EUR 27.7 billion) - a record figure even on a long-term comparison.

At EUR 16.5 billion (2014: EUR 14.3 billion), the **housing** key priority sector recorded the strongest growth. The continued robustness of the construction sector was the reason for this.

With a commitment volume of EUR 5.0 billion (2014: EUR 4.0 billion), **infrastructure financing** also experienced strong growth. Alongside demand that was in any case good, the special "refugee accommodation" facility provided particular growth stimulus here.

The previous year's level was maintained in the priority area of **education and social development**, with a commitment volume of EUR 2.6 billion (2014: EUR 2.6 billion). At EUR 4.7 billion, the contract volume in the **general funding** of promotional institutions of the federal states slightly exceeded that of the previous year (2014: EUR 4.6 billion). In **individual financing banks** a commitment volume of EUR 1.3 billion (2014: EUR 2.2 billion) was achieved with the funding of export loans and granting of global loans.

The **Capital markets** business sector adopted new approaches to promotion in 2015. New commitments in connection with promotional activities on the capital market for SME and environment financing stood at EUR 1.1 billion. For 2016, KfW aims to make EUR 1.0 billion worth of investments in securitisation transactions and will continue to play an active role in the European securitisation market. With the green bond portfolio launched in 2015, we are adding a new capital market instrument to our financing for environmental and climate protection. At the end of 2015, the investments for this portfolio stood at EUR 281 million and it is planned to increase this to EUR 1.0 billion over the coming years.

In the **Export and project finance** business sector, handled by **KfW IPEX-Bank**, new business commitments of EUR 20.2 billion were achieved (2014: EUR 16.6 billion). This was boosted in particular by the sector departments Maritime Industries (EUR 3.6 billion), Power, Renewables and Water (EUR 3.2 billion) and Aviation and Rail (EUR 2.8 billion). A major portion of KfW IPEX-Bank's financing activities in Maritime Industries can be attributed to cruise ships, those in the Power, Renewables and Water sector department mainly to onshore and offshore wind farms and to a number of combined cycle power plants. The very good new business in the Aviation and Rail department is principally attributable to several larger financing deals for rail projects. This too underscores KfW IPEX-Bank's ambition to make a significant contribution to environmental and climate protection.

The clear increase year-on-year is the result of an accumulation of extraordinary effects, including in particular high-volume individual transactions such as six cruise ships and bank refinancing in the maritime sector alone. Additionally, the development of the USD-EUR exchange rate overstated the commitment volume as compared to previous years by about EUR 1.0 billion. Alongside the increase in new business volume, collaboration in syndicates with partner banks continued to gain in importance.

KfW Development Bank is maintaining its new commitments at a high level. Last year, roughly EUR 6.7 billion was provided on behalf of the German Federal Government for development programmes throughout the world, the second-highest amount ever aside from the record year 2014 (EUR 7.4 billion). A considerable part of the new commitments (EUR 955 million) went to the crisis-ridden North Africa / Middle East region. More-over, almost 60% of new commitments were issued for projects and programmes in the field of climate and environmental protection.

In 2015, KfW's subsidiary **DEG** committed about EUR 1.1 billion (2014: EUR 1.5 billion) for the financing of investment of private companies in developing and emerging countries. Given the politically and economically challenging trends in important target markets, DEG's new business in 2015 was focused on financings with a good risk return profile and a high degree of relevance to development. The priority areas here were financings in Africa and other future markets as well as SMEs: EUR 632 million or 60% of new commitments were made to SMEs, while Africa and other future markets received commitments totalling EUR 566 million, equivalent to a 53% share.

To **fund** its promotional business, KfW in 2015 raised funds amounting to EUR 62.6 million on the international capital markets in a volatile market environment. It issued 175 bonds in 14 currencies, of which 82% was in the core currencies EUR and USD. This was the first time the USD accounted for the lion's share (45% or EUR 28 billion). KfW also issued five Green Bonds in EUR, USD, AUD, GBP and SEK, in total equivalent to EUR 3.7 billion. In 2016, KfW will be continuing its established issuing strategy; at EUR 70 billion to EUR 75 billion, funding needs will be higher than last year.

Promotional Figures 2015

Business activities of KfW Group (EUR in billions)

	2013	2014	2015
<i>KfW Group (consolidated)¹⁾</i>	72.5	74.1	79.3
<i>Domestic promotional business</i>	51.6	47.6	50.5
<i>Business sector Mittelstandsbank</i>	22.6	19.9	20.4
<i>Business sector Kommunal- & Privatkundenbank/ Kreditinstitute</i>	28.9	27.7	30.1
<i>Business sector Capital markets</i>	0.7	1.2	1.1
<i>International business</i>	20.5	25.5	27.9
<i>of which:</i>			
<i>Business sector Export and project finance (KfW IPEX-Bank)</i>	13.7	16.6	20.2
<i>Business area KfW Development Bank</i>	5.3	7.4	6.7
<i>DEG</i>	1.5	1.5	1.1

1) Adjustment for commitments of Export and project finance with refinancing from KfW programme loans (2013: EUR 193 million, 2014: EUR 153 million, 2015: EUR 229 million)

An overview of the business and promotional figures in table form is available for download at www.kfw.de/geschaeftszahlen.