

»» 2014 – a successful promotional year: volume of promotion rises to EUR 74.1 billion



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Domestic promotional business an effective stimulus totalling EUR 47.6 billion, despite challenging conditions

International finance rises to EUR 25.5 billion

KfW global leader in the field of climate and environmental finance (EUR 26.6 billion)

Contribution of EUR 8 billion to the “Juncker plan” reflects growing importance within Europe (2015–2017)

Digitalisation of the promotional business: online platform successfully launched

As in the years before, the KfW Group registered strong demand for its financing products in 2014, despite a challenging environment. The volume of new promotional commitments rose to a total of EUR 74.1 billion (2013: EUR 72.5 billion). The focus of these commitments was still on promoting SMEs, start-ups and innovative companies. KfW also continued to build up its position as the global leader in the field of climate and environmental finance (EUR 26.6 billion).

Despite the challenging conditions on the market, KfW's domestic promotional business achieved a high volume in 2014 with new commitments amounting to EUR 47.6 billion (2013: EUR 51.6 billion). The year-on-year decline had been anticipated, and mainly concerned corporate finance. Given the persistent reluctance to invest and economic uncertainty combined with the high levels of liquidity held by companies, demand for

credit among German companies was muted on the whole.

The volume of international financing business, consisting of the Export and Project Finance business sector (KfW IPEX-Bank), the KfW Development bank business area and the subsidiary DEG, rose by 25% to EUR 25.5 billion (2013: EUR 20.5 billion). Demand rose for KfW IPEX-Bank in its role as an export and project finance specialist. KfW Development Bank also saw strong growth in its climate and environmental financing activities, in particular in the financing of environmentally friendly power generation and supply, which was the subject of almost half of all new commitments.

“2014 was a successful year for our promotional activities. Despite challenging economic conditions, KfW was able to make an important contribution to the development of innovation, growth and climate protection, in Germany and around the world. In doing so, it lived up to the growing demands on promotional banks to overcome global economic weakness” said Dr Ulrich Schröder, CEO of the KfW Group.

KfW will be contributing around EUR 8 billion to the European investment programme (the “Juncker plan”) between 2015 and 2017. The plan includes bilateral measures such as granting global loans to European promotional banks with a focus on financing the SME sector, intensifying securitisation activities, providing venture capital, project and equity finance as part of investment platforms including the Marguerite fund for example. “Germany and Europe still face enormous challenges. National promotional banks like KfW play an important role in this context, for instance in connection with the Juncker plan” said Dr Schröder.

KfW is implementing a large number of measures as part of its modernisation efforts. One important aspect of these is the **BDO online platform**. In 2014, KfW launched this new online platform for housing sector programmes in partnership with Deutsche Postbank. For the first time, the platform allows applications for promotional loans to be accepted immediately, less than a minute after they are submitted. Commerzbank has also been using the service as a second financing partner since December 2014. In 2015 and in subsequent years, more financing partners will gradually be connected to the BDO platform, and products for commercial borrowers will be added to the range of BDO-compatible KfW products from 2016. “The digitalisation of the applications process is essential for safeguarding the long-term prospects of promotional lending as a successful model” said Dr Schröder.

Details of the business sectors' promotional results

The volume of new business for the **Mittelstandsbank** business sector came to EUR 19.9 billion (2013: EUR 22.6 billion). SMEs accounted for 44% of all domestic promotion. While commitments in the field of **general corporate finance** declined overall (EUR 7.6 billion, 2013: EUR 8.6 billion), the important priority sector of **start-ups** (EUR 2.8 billion) was able to maintain roughly the same volume as in the prior year (EUR 2.7 billion). Innovation **financing** also bucked the trend by rising sharply to EUR 1.4 billion (2013: EUR 1.0 billion).

A solid promotional volume of EUR 8.2 billion was achieved for the **environment** priority sector (2013: EUR 10.3 billion). KfW's energy efficiency programme returned to the volume recorded in 2012 (EUR 3.2 billion) following a record year in 2013 (EUR 4.7 billion). The volume

of commitments in connection with KfW's renewable energies programme was largely unchanged at EUR 4.1 billion (2013: EUR 4.7 billion).

The new commitments in the **Kommunal- und Privatkundenbank/Kreditinstitute business sector** amounted to EUR 27.7 billion in 2014 (2013: EUR 28.9 billion). The **housing** priority sector maintained its momentum with EUR 14.3 billion (2013: EUR 15.6 billion). Despite the reluctance to invest on account of discussions surrounding the fiscal promotion of energy-efficient refurbishment, the energy-efficient construction and renovation programmes made a substantial contribution of EUR 9.3 billion towards the high volume of promotion (2013: EUR 10.4 billion).

The volume of new commitments in the field of **infrastructure financing** came to EUR 4.0 billion (2013: EUR 4.7 billion). The decline in 2014 can mainly be attributed to the absence of promotional products to expand child daycare facilities. In addition to the basic products for municipalities (IKK) as well as those for municipal and social companies (IKU), the special programmes for supplying neighbourhoods in connection with urban energy efficiency rehabilitation measures were in particular demand in 2014. The high volume of commitments in the **education and social** priority sector last year (EUR 2.6 billion) was repeated again this year.

In the field of **general refinancing** for promotional institutions of the federal states, the volume of cooperation rose from EUR 3.6 billion in 2013 to EUR 4.6 billion. As part of the **individual financing of banks**, a promotional volume of EUR 2.2 billion (2013: EUR 2.5 billion) was achieved with the refinancing of export loans and granting of global loans to support investment in leasing as well as SMEs and energy efficiency in Europe. This amount includes commitments to the Institution for Growth (Greece), the Strategic Banking Corporation of Ireland (SBCI) and Cassa Depositi e Prestiti (CDP, Italy) on behalf of the German Federal Government, with a total volume of EUR 750 million.

The **Capital markets** business sector contributed a volume of EUR 1.2 billion

(2013: EUR 651 million) consisting of **securitisation transactions** for loans to German SMEs and leasing claims.

The Export and Project Finance business sector for which KfW's subsidiary **KfW IPEX-Bank** is responsible generated new commitments adding up to EUR 16.6 billion (2013: EUR 13.7 billion). The main contributors to this result were the sector departments Maritime Industries (EUR 2.9 billion), Basic Industries (EUR 2.7 billion) and Power, Renewables and Water (EUR 2.3 billion). A major portion of KfW IPEX-Bank's financing activities in Maritime Industries can be attributed to cruise ships and to offshore industry investments. Several high-volume export financing transactions were the main drivers of the increase in the volume of commitments in Basic Industries during the past year. The key role of Power, Renewables and Water underscores KfW IPEX-Bank's ambition to make a significant contribution to climate and environmental protection through its financings. Alongside the rise in the volume of new business, cooperation with partner banks in the form of syndicates has also grown increasingly important.

Over the past year, **KfW Development Bank** recorded the largest volume of new commitments in its history, providing around EUR 7.4 billion (2013: EUR 5.3 billion) on behalf of the German federal government for development programmes around the world. The growth in the volume of commitments for climate and environmental protection was particularly strong, with its share rising from 53% in the previous year to its current level of 64%. However, commitments for the poorest partner countries also remained high, with almost 40% of German federal budget funds going to projects in sub-Saharan Africa. Commitments with a total volume of around EUR 500 million were entered into in the "peace and security" field of promotion, reaching about 15 million people in 22 different countries. These projects are aimed at supplying refugees – especially in the Middle East and Africa – as well as restoring basic infrastructure.

Over the past year, KfW's subsidiary **DEG** committed about EUR 1.47 billion (2013: EUR 1.45 billion) for the financing of private investment in developing and emerging countries. This represented

another slight year-on-year increase. DEG provided German companies investing in emerging and developing countries a significantly increased financing volume of EUR 253 million (2013: EUR 152 million) in 2014. There was similarly encouraging growth in the amount invested in Africa and other future markets, with commitments amounting to around EUR 855 million (2013: EUR 630 million). EUR 416 million of this amount was earmarked for Africa (2013: EUR 326 million). At EUR 691 million (2013: EUR 649 million), almost half of the total volume of new commitments related to projects promoting the protection of the climate and the environment, as well as adapting to climate change.

In 2014, KfW raised long-term funds totaling EUR 57.4 billion on the international capital markets to **fund** its promotional mandate (2013: EUR 65.4 billion). This involved issuing 250 bonds in 13 different currencies, benefiting from continued demand on the part of investors for high-volume liquid bonds (benchmark bonds). With a share of 57%, they are the most important source of funding for KfW. KfW's activities on the capital market were mainly characterised by two innovative new products in 2014 – the issue of the first KfW renminbi bond to be listed on the Frankfurt stock exchange, and the issue of the first two KfW Green Bonds in euros and US dollars. In this way, KfW set standards for the market and contributed to the establishment of these still young market segments.

In 2014, 83% of the total funding volume was raised in euros and US dollars. Because of favourable funding conditions, KfW started concentrating heavily on financing in foreign currencies in the early summer of 2014. The overall proportion of foreign currencies stood at about 55% at the end of the year. The bank plans to raise between EUR 55 billion and EUR 60 billion during the year in progress. With its explicit, direct guarantee from the German federal government, KfW believes it is in a prime position to easily achieve its planned funding volume. In January 2015, KfW already borrowed EUR 8.7 billion on the capital market.

Business activities of KfW Group

(EUR in billions)

	2012	2013	2014
KfW Group (consolidated)¹⁾	73.4	72.5	74.1
Domestic promotional business²⁾	50.6	51.6	47.6
Business sector Mittelstandsbank	24.1	22.6	19.9
Business sector Kommunal- und Privatkundenbank/Kreditinstitute	29.3	28.9	27.7
Business sector Capital markets	0.8	0.7	1.2
International business	19.7	20.5	25.5
of which:			
Business sector Export and project finance (KfW IPEX-Bank)	13.4	13.7	16.6
Business area KfW Development Bank	4.9	5.3	7.4
DEG	1.3	1.5	1.5

¹⁾ Adjustment for commitments of Export and project finance with refinancing from KfW programme loans (2012: EUR 440 million, 2013: EUR 193 million, 2014: EUR 153 million)

²⁾ Until 2012, the commitments in Individual Financing-Banks (EUR 2.7 billion) were not accounted for in the domestic promotional business volume.