

## »» Third quarter of 2014: KfW promotion continues at a high level



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**Total commitment volume of EUR 50.7 billion**

**Domestic promotion in the field of energy-efficient construction and refurbishment, as well as innovations, defies difficult environment**

**International financing rises by EUR 3.6 billion**

**Consolidated profit of EUR 1,272 million**

**Tier 1 capital ratio under Basel III: 14.0%**

**First "Green Bond – Made by KfW" met with great interest on capital markets**

In the first nine months of 2014, promotional activities of the KfW Group reached a total volume of EUR 50.7 billion (prior-year period: EUR 51.1 billion). The volume of business outside Germany increased from EUR 12.6 billion to EUR 16.1 billion (+ EUR 3.6 billion). The business sectors of Export and Project Finance (+ EUR 2.8 billion) and the KfW Development Bank business area (+ EUR 1 billion) in particular made a key contribution to this growth.

At EUR 33.7 billion (– EUR 4.4 billion), new commitments for the domestic promotional business were lower than in the previous year (EUR 38.1 billion). This is mainly attributable to the subdued demand for loans and willingness to invest on the part of SMEs.

"The German economy has cooled down considerably after a good start to the year. Demand for KfW promotion has nonetheless reached a high level after nine months. The overall trend is in line with our expectations, and at the same time reflects the subsidiary role played by KfW," said Dr Ulrich Schröder, CEO of the KfW Group.

With **consolidated profit of EUR 1,272 million** (prior-year period: EUR 923 million), the earnings position continued to develop well in the third quarter. The very low interest rate and a further flattening of the interest curve resulted in lower interest income as compared to the previous year, and consequently a weaker operating result before valuation. At the same time, KfW nevertheless benefited from the good development of risk provisions in the lending business and the positive result from the private equities and securities portfolio, which more than made up for the decline in the operating result before valuation. Moreover, the additional promotional activity taken on for the government in the previous year (30 September 2013: EUR 254 million) no longer burdened the earnings position.

"The positive income trend for KfW in the first half of the year continued into the third quarter. We also anticipate satisfactory annual results by year-end," said Dr Schröder.

The **operating result before valuations** (and before promotional activities) totalled EUR 1,544 million (EUR 1,835 million). Net interest income (before promotional activities), amounting to EUR 2,041 million, remains the main source of income for KfW

based on its persistently good funding conditions. However, net interest income did come in significantly below the previous year as a result of the lower interest environment (EUR 2,312 million).

As expected, **promotional activities** totalling EUR 267 million, essentially in the form of interest rate reductions from new business in 2014, are below the previous year's level (EUR 422 million), which is due in particular to the lower volume of commitments.

**Risk provisions in the lending business** totalling EUR 109 million had only a moderate drag on the earnings position (prior-year period: EUR 195 million).

The still pleasing **result from the private equity and securities portfolio** amounting to EUR 230 million (EUR 46 million) is especially attributable to DEG's private equity business.

**Total assets** came in higher than at 31 December 2013 (EUR 464.8 billion), registering a figure of EUR 487.1 billion. This development is primarily due to changes in market value connected to hedging transactions.

New business and the appreciation of the US dollar led to a decrease in the regulatory capital ratios. The Tier 1 ratio is now 14.0% and the total capital ratio 15.0%.

# Third Quarterly Report 2014

## Results of promotional activities

At EUR 14.4 billion, new business in the **KfW Mittelstandsbank business sector** was almost EUR 3 billion below the same period of the previous year (EUR 17.3 billion). In line with expectations, demand for loans continued to be moderate in the third quarter of 2014, too. When it comes to financing their investments, companies are in many cases turning first to their own funds.

In the area of **business start-ups and general corporate finance**, this led to a decrease of EUR 1.1 billion to EUR 7.5 billion. With a commitment volume of around EUR 2 billion, start-ups, an important priority area of promotion, pleasingly remained at the same level as in the previous year (prior-year period: EUR 2.1 billion).

Contrary to the general trend, the volume of commitments in the area of **innovation** was up on the previous year by EUR 0.2 billion to EUR 1 billion. The main driver of this positive development was the ERP innovation programme, which has established itself well in the market. Owing to delayed projects for offshore wind farms and commitments in the KfW Energy Efficiency Programme that were lower than in the 2013 record year, volumes in the area of **environmental financing** stood at EUR 5.9 billion, around EUR 2 billion below the level of the previous year. In the area of renewable energies, the financing of onshore wind farms partially compensates for the drop in the field of photovoltaic plants.

The promotional business volume in the **Kommunalbank and Privatkundenbank/Kreditinstitute business sector** amounted to EUR 19.3 billion (EUR 20.9 billion). The promotional focus on **housing** accounted for a commitment volume of EUR 11.2 billion (EUR 11.9 billion). The main contribution to this came from programmes for energy-efficient construction and refurbishment supported by the German federal government, with a promotional business volume of

EUR 7.4 billion (EUR 8 billion). The decrease on the previous year, which was only slight, can be attributed in particular to a fall in demand for new construction.

With a volume of EUR 2.7 billion (EUR 3.4 billion), commitment activity in the focal area of **infrastructure financing** followed expectations, after the previous year had been greatly influenced by the child care facilities expansion programme, which expired at the end of 2013, and major individual transactions in municipal financing. Increased lending for programmes designed to improve energy efficiency was a welcome development. At EUR 1.8 billion, the area of **education finance** remained at the level of the previous year.

At EUR 2.8 billion, a further increase in interest in **general funding** on the part of promotional institutions of the federal states resulted in the previous year's volume being exceeded (EUR 1.9 billion). In the area of **individual financing banks**, the volume was EUR 0.9 billion and thus below the figure for the same period of the previous year (EUR 1.9 billion).

In the **Export and Project Finance business sector, for which KfW IPEX-Bank** is responsible, new business commitments totalled EUR 12.8 billion (EUR 10 billion). This includes several major financing projects for the construction of cruise ships. Overall, the Maritime Industries business department contributed EUR 3.1 billion to the current year's commitment volume. EUR 1.9 billion was generated by each of the basic industries, aviation and rail transport areas.

The **Promotion of Developing and Transition Countries business sector** totalled EUR 3.4 billion (EUR 2.6 billion). By the end of the third quarter of 2014, the **business area KfW Development Bank** had considerably increased its volume of commitments. The total commitment volume for projects and programmes in developing and emerging countries stood at EUR 2.7 billion (EUR 1.7 billion). EUR 851 million of this went to Asia,

EUR 614 million to South America and EUR 420 million to sub-Saharan Africa. New business at **DEG** developed rather more dynamically during the third quarter. As of 30 September 2014 it committed a total of EUR 706 million for investments by private companies in developing and emerging countries (EUR 884 million). In Africa, a strategic focus of DEG, at EUR 208 million it proved possible to far exceed the previous year's commitments (EUR 161 million). At EUR 305 million, the majority of financing commitments were again accounted for by Asia (EUR 367 million).

In the **Capital Markets business sector** an amount of EUR 932 million (EUR 458 million) was provided to banks and leasing companies in the first nine months via securitisation instruments to finance SMEs. As of 30 September 2014, KfW had raised long-term funds on the international capital markets amounting to the equivalent of about EUR 40 billion in 12 different currencies (as of 31 October 2014: EUR 48 billion).

The first Green Bond with a volume of EUR 1.5 billion was placed in July. This was the largest inaugural issuance ever in the Green Bond market. In order to set a positive overall trend for the market segment and drive it forward, KfW is setting particular store by transparency and high quality standards for its Green Bond concept. KfW anticipates a **funding volume** of EUR 55 billion to EUR 60 billion for the year as a whole.

## Financial indicators (IFRS)

Key figures of the income statement (EUR in millions)	1 Jan 2014 – 30 Sept 2014	1 Jan 2013 – 30 Sept 2013 <sup>1)</sup>
Operating result before valuations (before promotional activities)	1,544	1,835
Promotional activity (expense)	267	422
Consolidated profit	1,272	923
Consolidated profit before IFRS effects from hedging	1,339	981

Key figures of the statement of financial position (EUR in billions)	30 Sept 2014	31 December 2013
Total assets	487.1	464.8
Equity	21.5	20.5
Business volume	566.0	545.4

Key regulatory figures (in %) <sup>2)</sup>	30 Sept 2014	31 December 2013
Tier 1 ratio	14.0	20.6
Total capital ratio	15.0	22.3

<sup>1)</sup> Adjustments to the comparative figures for the previous year due to changed accounting and valuation methods (conversion to NPV accounting of KfW's interest rate reductions: detailed explanations can be found in the 2013 Financial Report).

<sup>2)</sup> For internal purposes, voluntarily calculated using the basic legal provisions. The calculation of the key figures as of 30 Sept 2014 was based on Basel III regulations which were in force as of 1 January 2014; the comparative figures from the previous year were not adjusted. In this context, the conversion from the HGB-based aggregation method to the IFRS consolidated financial statement method was brought forward.

## Business activities of KfW Group

(EUR in billions)

	2013	1-9/2013	1-9/2014
<b>KfW Group (consolidated)<sup>1)</sup></b>	<b>72.5</b>	<b>51.1</b>	<b>50.7</b>
<b>Domestic promotional business</b>	<b>51.6</b>	<b>38.1</b>	<b>33.7</b>
<i>Business sector Mittelstandsbank</i>	22.6	17.3	14.4
<i>Business sector Kommunal- und Privatkundenbank/Kreditinstitute</i>	28.9	20.9	19.3
<b>Business sector Capital markets</b>	<b>0.7</b>	<b>0.5</b>	<b>0.9</b>
<b>International business</b>	<b>20.5</b>	<b>12.6</b>	<b>16.1</b>
of which:			
<i>Business sector Export and project finance (KfW IPEX-Bank)</i>	13.7	10.0	12.8
<i>Business area KfW Development Bank</i>	5.3	1.7	2.7
DEG	1.5	0.9	0.7

<sup>1)</sup> Adjustment for commitments of Export and project finance with refinancing from KfW programme loans (09/2013 EUR 100 million, 2013: EUR 193 million, 09/2014: EUR 105 million).