

»» First half of 2014: KfW financing at high level



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**Total commitment volume of
EUR 31.7 billion**

**Increase in demand for
Energy-efficient Construction and
Refurbishment by roughly 10%**

**EUR 2.3 billion increase in Export
and project finance**

**Consolidated profit of
EUR 889 million**

**Basel III Tier 1 ratio recalculated
under IFRS: 15.1 %**

The KfW Group achieved a total business volume of EUR 31.7 billion in the first half of 2014, up from EUR 31.5 billion in the same period of 2013. The volume of commitments in international financing rose from EUR 7.2 billion to roughly EUR 10 billion (+39%). The Export and project finance business sector (+41%) and KfW Development Bank (+58%) in particular both contributed to this growth.

New commitments for domestic promotional business totalled EUR 21.3 billion on account of the muted credit demand in Germany (previous year EUR 24.3 billion). The priority areas of the promotional business remained unchanged: SME, environmental and climate protection financing.

“Despite tricky economic conditions, the demand for KfW financing was high again in the first half of 2014. Interestingly, demand for German export and project financing rose sharply, despite the difficult global political environment. Equally pleasing is the continued robust growth in

demand for the Energy-Efficient Construction and Refurbishment programmes,” said Dr Ulrich Schröder, Chief Executive Officer of the KfW Group.

The earnings position evolved well in the first half of 2014 with a **consolidated profit of EUR 889 million**. The very low interest rate and the flat interest curve did result in lower net interest income on a half-yearly comparison along with a related decline in the operating result before valuations. However, this development was more than compensated for by the positive trend in risk provisions in the lending business and the encouraging result from the securities and private equity portfolio. The promotional activities taken on for the government in the previous year no longer burdened the earnings position as of 30 June 2014 (30 June 2013: EUR 311 million).

“We are pleased with the half-yearly result of KfW, which overall surpassed our expectations. The reason for this is the positive development in credit risk provisions and the valuation result, but this cannot be sustained in the course of the year,” said Dr Schröder.

The **operating result before valuations** (and before promotional activities) totalled EUR 1,034 million (EUR 1,236 million). Net interest income (before promotional activities) amounting to EUR 1,356 million is still the main source of income for KfW based on the persistently good funding conditions for KfW, but it did come in below the previous year as a result of the weaker interest rate climate (EUR 1,554 million). While KfW still generated exceptionally high earnings here during the financial market crisis as a “safe haven”, as of 30 June 2014 the first detrimental effects of the high market liquidity appeared, coupled with the low interest rates

associated with such a trend and the renewed substantial flattening of the interest curve in 2014.

As expected, **promotional activities** – essentially in the form of interest rate reductions from new business in 2014, which have been charged to the earnings position at net present value since 2013 – came in below the previous year (EUR 306 million) at EUR 186 million.

Risk provisions in the lending business were less of a burden on the earnings position than expected, totalling EUR 71 million (EUR 139 million). There was no particular need for write-downs in the individual business units.

The still pleasing **result from the private equity and securities portfolio** amounting to EUR 133 million (EUR 84 million) is primarily attributable to DEG’s private equity business.

Total assets came in slightly higher than at 31 December 2013 (EUR 464.8 billion), registering a figure of EUR 475.0 billion. This development is mostly due to changes in market value connected to hedging transactions. The calculation of regulatory capital adequacy requirements was switched from HGB to IFRS accounting standards. This triggered the expected decline in regulatory capital ratios, but they remain at a comparatively high level. The Tier 1 ratio is now 15.1%, and the total capital ratio 16.0%.

Results of promotional activities

New business volumes in the **Mittelstandsbank** (SME Bank) **business sector** totalled EUR 10.0 billion as of 30 June 2014. This decrease compared to the previous year’s figure (EUR 11.6 billion) reflects the credit demand of companies

and the self-employed in Germany, which contracted at the start of 2014 before later stagnating. Companies have used their own funds accumulated in recent years to finance smaller investment projects. Therefore, despite the historically cheap conditions for accessing credit, this factor has yet to provide any stimulus to revive new lending business.

The muted credit demand had a particular effect on the priority area of **Business Start-Ups and General Corporate Finance**. Here, commitments amounted to EUR 5.1 billion (EUR 5.9 billion). Pleasingly, business start-up financing came in at the previous year's level of EUR 1.3 billion. Promotional business in the area of **Innovations** has become well established in the market, increasing by 36% from the previous year's figure to EUR 0.7 billion. This result was generated by the high growth in commitments for the ERP Innovation Programme.

For **Environmental and Climate Protection Financing**, the Mittelstandsbank business sector committed a total of EUR 4.2 billion (EUR 5.1 billion). The decline in commitments compared to the same period last year is due to the KfW Energy Efficiency Programme, which experienced exceptionally strong demand in the first half of 2013. Commitments amounting to EUR 2.3 billion in the KfW Renewable Energies programme exceeded the previous year's level (EUR 2.2 billion): this included a marked increase in commitments for financing onshore wind facilities, while financing commitments for photovoltaic plants dropped.

The promotional business volume in the **Kommunalbank and Privatkundenbank/Kreditinstitute** (Municipal and Private Loans/Credit Institutions) **business sector** amounted to EUR 11.3 billion (EUR 12.7 billion). This figure came in lower than the previous year mainly on account of the falling demand in **Infrastructure Finance** (EUR 1.4 billion, previous year EUR 2.3 billion) as well as **Refinancing of Promotional Institutions of the Federal States and Banks** (EUR 0.7 billion, previous year EUR 1.2 billion). By contrast, the promotional focus on **Housing** produced substantial growth stimulus. Commitments here

totalled EUR 7.6 billion, higher than the already excellent result from the previous year (EUR 7.2 billion). Key driver of this development were the programmes for Energy-Efficient Construction and Refurbishment supported by the federal government, which generated a promotional business volume of EUR 5.1 billion, beating the previous year's figure (EUR 4.6 billion).

In the promotional sector of **Infrastructure Finance**, the volume of commitments returned to a normal level of EUR 1.4 billion compared to the exceedingly high figure from the previous year (EUR 2.3 billion). The decline compared to 2013 was due amongst other things to the large individual transactions that affected the previous year's figure in Investment Loans for Municipalities. The growing demand for programmes to improve energy efficiency is also a pleasing trend in Infrastructure Finance. Commitments in **Education Finance** were unchanged from the previous year's level at EUR 1.1 billion.

In the priority area of **Individual Financing Banks**, the refinancing of export loans and the commitment of global loans to support leasing and European energy efficiency investments produced a business volume of EUR 0.6 billion (EUR 0.9 billion). The declining trend in commitments here is mostly attributable to the continued improvement in funding and liquidity positions of market partners in Germany and in Europe.

In the **Export and Project Finance** business sector, handled by **KfW IPEX-Bank**, new business commitments totalled EUR 7.9 billion (EUR 5.6 billion). This includes large one-off transactions, such as in the Basic Industries segment, for example. This business segment alone contributes EUR 1.5 billion to the commitment volume, similarly to the Aviation and Rail segment. The Financial Institutions and Trade Finance segment is another growth driver, contributing EUR 1.3 billion.

New commitments in the **Promotion of Developing and Transition Countries business sector** totalled EUR 2.1 billion (EUR 1.6 billion). In the first half of 2014, **KfW Development Bank** committed a

sum of roughly EUR 1.6 billion (EUR 1.0 billion) for projects and programmes worldwide. Some 65% of these funds are directed at climate and environmental protection. A total of 33% of the commitments pertain to social infrastructure such as healthcare, education and water supply, 25% to the finance sector and 18% to energy generation and supply.

New business at **DEG** picked up momentum in the first half of 2014. As of 30 June 2014, it committed a total of EUR 475 million to finance private investments in developing and emerging countries (EUR 549 million). Development of business with German companies was particularly pleasing, where the level of commitments more than doubled to EUR 120 million (EUR 55 million). New business in Africa experienced similarly substantial growth to EUR 114 million (EUR 61 million). In regional terms, most commitments again went to Asia, at EUR 240 million (EUR 260 million).

In the **Capital Markets business sector**, EUR 517 million (EUR 173 million) was provided to banks and leasing companies in the first six months via securitisation instruments to finance SMEs. The issue of the first **Green Bond** was very well received in the capital market. It is the first time a link has been made between the assets and liabilities side. Investors throughout Europe appreciate the fact that the CO₂ savings from the Renewable Energies Programme – Standard this bond offers are measurable. With a volume of EUR 1.5 billion, this bond is the largest new issue in this market segment and has set new standards.

As of 31 July 2014, KfW had raised long-term funds on the international capital markets amounting to the equivalent of EUR 38.2 billion in 11 different currencies (EUR 36.5 billion as of 30 June 2014). This corresponds to roughly two thirds of the **funding requirement** for 2014, which was recently reduced to EUR 55 to 60 billion on account of high levels of non-scheduled repayments in the lending business.

Key financial figures (IFRS)

Key figures of the income statement (EUR in millions)	1 Jan 2014 – 30 June 2014	1 Jan 2013 – 30 June 2013 ¹⁾
Operating result before valuations (before promotional activities)	1,034	1,236
Promotional activities (expense)	186	306
Consolidated profit	889	499
Consolidated profit before IFRS effects from hedging	877	564

Key figures of the statement of financial position (EUR in billions)	30 June 2014	31 December 2013
Total assets	475.0	464.8
Equity	21.3	20.5
Business volume	555.3	545.4

Key regulatory figures (in %) ²⁾	30 June 2014	31 December 2013
Tier 1 capital ratio	15.1	20.6
Total capital ratio	16.0	22.3

¹⁾ 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).

²⁾ For internal purposes, voluntarily calculated using the basic legal provisions. The calculation of the key figures as of 30 June 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 – 6/2013	1 – 6/2014
KfW Group (consolidated)¹⁾	72.5	31.5	31.7
Domestic promotional business	51.6	24.3	21.3
Business sector Mittelstandsbank	22.6	11.6	10.0
Business sector Kommunal- und Privatkundenbank/Kreditinstitute	28.9	12.7	11.3
Business sector Capital markets	0.7	0.2	0.5
International business	20.5	7.2	10.0
of which:			
Business sector Export and project finance (KfW IPEX-Bank)	13.7	5.6	7.9
Business area KfW Development Bank	5.3	1.0	1.6
DEG	1.5	0.5	0.5

¹⁾ Adjustment for commitments of Export and project finance with refinancing from KfW programme loans (06/2013: EUR 78 million, 2013: EUR 193 million, 06/2014: EUR 81 million).