

First Blockchain-Based Digital Bond

EUR 100 million 3.125% due December 2025

2 July 2024

Investor Relations: investor.relations@kfw.de • www.kfw.de/investor-relations

KfW issues its first blockchain-based digital bond under the German Electronic Securities Act (eWpG)

Joint Lead Managers:



LB≡BW
METZLER

Tim Armbruster, Treasurer at KfW, commented: "The issuance of our first crypto security is another important milestone on our digital learning journey. From the outset, our aim was to involve as many market participants as possible in the transaction in order to collectively learn new things and test the innovation facilitated by the legislator through the German Electronic Securities Act (eWpG) together with our banking partners, our anchor investor Union Investment and other interested investors. The healthy level of participation shows the investors' keen interest in the digitalisation of capital market transactions. We now want to use this potential to identify scaling options for our refinancing activities."

Transaction Highlights

- KfW issues its first blockchain-based digital bond in the form of a crypto security in accordance with the German Electronic Securities Act (eWpG) with value date 4 July 2024.
- The bookrunner consortium consists of DZ BANK AG, Deutsche Bank AG, LBBW and Bankhaus Metzler.
- The preceding eight-week period with Union Investment as an anchor investor has generated a strong response from investors.
- DZ BANK AG is the collective registered holder in the crypto securities register as the holder for investors.
- Deutsche Bank AG is acting as the lead arranger and settlement agent.
- Frankfurt-based fintech Cashlink Technologies GmbH is serving as the crypto securities registrar.
- Hauck Aufhäuser Digital Custody is providing the necessary crypto custody services for KfW.
- KfW relied on the expert opinion of Linklaters LLP for its legal advice; the bookrunner consortium was supported by Hengeler Mueller.

Transaction Summary

ISIN	DE000A383BJ9
Issuer	KfW
Guarantor	Federal Republic of Germany
Rating	Aaa / stable (Moody's) AAA / stable (Standard & Poor's) AAA / stable (Scope Ratings)
Notional amount	EUR 100 million
Pricing date	2 July 2024
Maturity date	10 December 2025
Coupon	3.125% p.a.
Reoffer price / yield	99.829 % p.a. / 3.258 % p.a.
Benchmark spread	OBL 0% 10/2025 + 19.6 bps
Format	Stand-alone
Settlement	T+2
Underlying blockchain	Polygon

KfW's First Blockchain-Based Digital Bond: Lessons Learned & Key Messages

German Electronic Securities Act (eWpG)

The eWpG provides a functioning legal and regulatory framework for the issuance of electronic securities (here: crypto securities), the practicability of which is currently demonstrated in the context of initial large-volume issues (EUR 100 million). It highlights the need for new roles such as, for example, crypto securities registrar and crypto custody services. The provision of these services is regulated in the eWpG and the German Banking Act and requires a licence from the German Financial Supervisory Authority (BaFin).

Assessment of the current market maturity of crypto securities in accordance with the eWpG

Heavy investor interest: Investors clearly see the opportunity to think early about digitalisation and the use of new technologies (in particular, DLT and tokenisation). Large, medium-sized and smaller investors are equally interested across a broad spectrum (asset managers, treasuries, cooperative banks, savings banks, etc.).

ECB eligibility: The current lack of ECB eligibility of crypto securities *ceteris paribus* is leading to reduced investor interest.

Secondary market liquidity: Secondary market liquidity is still very limited for crypto securities. This is due not only to a comparatively modest number of issues and a rather low number of 'eligible' investors, but primarily to the regulatory requirement that in order to be tradable on a stock exchange, marketable papers are categorically required to be deposited with a central securities depository, which by definition is not the case with crypto securities. This inadequacy might possibly be addressed as part of the EU DLT Pilot Regime.

Lessons learned from KfW's first blockchain-based digital bond and areas of development

Further practical testing of the eWpG: Some of the provisions of the eWpG have hardly been tested in practice, or not at all. One of them is the option of converting crypto securities to a certificate-based security pursuant to Section 6 para 2 of the eWpG. In addition, some (technical) conditions are still lacking, limiting a (market-wide) implementation of particular provisions. In order to be able to implement Section 29 of the eWpG in practice, it is recommendable to use a technical solution of DLT-based central bank money which can be put into practice using suitable smart contracts (see current ECB exploration phase on new technologies for wholesale settlement solutions).

Lack of clarity on the number of collectively registered holders: Is it legally admissible to nominate more than one collectively registered holder per issue? Nomination of the collectively or individually registered holder pursuant to Section 8 para 1 of the eWpG by the issuer: Is this nomination to be made only for the primary issue (that is, on (first) registration of the crypto security), or can a further holder also be nominated under Section 8 para 1 of the eWpG?

Lack of clarity on changes in form of registration: Does the form of registration result from the general designation of the relevant blockchain address as a collective address or individual address so that all crypto securities transferred to this address adjust their form of registration accordingly with the transfer, or does the change in the form of registration require a relevant instruction and consent from the issuer (Section 18 para 2 eWpG)?

Key messages on strengthening the scalability of blockchain-based digital bonds

Education: Banks and financial institutions in particular should work thoroughly to educate themselves on the topic of DLT and tokenisation and understand what impacts the changing infrastructure can have for them. This is of particular importance, not least against the backdrop of the growing dynamic in international money and capital markets.

Payment side: In order to unlock the full potential of DLT, it is of utmost importance and urgency to provide the market with a solution for (central-bank) money that is interoperable with DLT. For example, this will allow the settlement of securities to be realised smoothly, enabling delivery-versus-payment 'on-chain'.

Market depth and secondary market: In order to strengthen the scalability of blockchain-based digital bonds on a sustained basis, sufficient market maturity combined with pronounced secondary market liquidity is of central importance. In addition to further concrete issues, this will require in particular that investors be 'enabled' for, for example, acquiring, managing and trading crypto securities in accordance with the eWpG. At the same time, it is important to work on creating a concrete framework (for example, for the ECB eligibility of crypto securities) and to remove uncertainties and barriers in existing frameworks such as the EU DLT Pilot Regime. Only when market depth has increased in this way will standards be able to evolve more and more so that a functioning 'ecosystem' can eventually establish itself.

Disclaimer:

This announcement does not constitute an offer of securities for sale or a solicitation of an offer to purchase securities. Neither this announcement nor anything contained herein shall form the basis of, or be relied upon in connection with, any offer or commitment whatsoever in any jurisdiction.

In particular, this announcement does not constitute an offer to sell or a solicitation of an offer to purchase any securities in the United States. Any securities referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the laws of any state within the U.S., and may not be offered or sold in the United States absent registration or an applicable exemption from registration or in a transaction not subject to the registration requirements of the Securities Act. There will be no offering of the securities in the United States. This announcement and the information contained herein may not be distributed or sent into the United States, or in any other jurisdiction in which offers, or sales of the securities described herein would be prohibited by applicable laws and should not be distributed to publications with a general circulation in the United States. The securities are being offered and sold outside the United States only in reliance on Regulation S under the Securities Act.

In the United Kingdom, this announcement is only being distributed to and is only directed at (i) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") and (ii) high net worth entities falling within Article 49(2) of the Order and (iii) persons to whom it would otherwise be lawful to distribute it (all such persons together being referred to as "relevant persons"). The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this announcement or any of its contents.

No member of the bookrunner syndicate or any of their respective directors, officers, employees, advisers or agents accepts any responsibility or liability whatsoever for or makes any representation or warranty, express or implied, as to the truth, accuracy or completeness of the information in this announcement (or whether any information has been omitted from the announcement) or any other information relating to the securities, whether written, oral or in a visual or electronic form, and howsoever transmitted or made available or for any loss howsoever arising from any use of this announcement or its contents or otherwise arising in connection therewith. The members of the bookrunner syndicate are acting exclusively for the KfW and no one else in connection with the transaction. They will not regard any other person as their respective clients in relation to the transaction and will not be responsible to anyone other than the KfW for providing the protections afforded to their respective clients, nor for providing advice in relation to the transaction, the contents of this announcement or any arrangement or other matter referred to herein. In connection with the issue of the securities, the members of the bookrunner syndicate and any of their affiliates, acting as investors for their own accounts, may subscribe for or purchase the securities and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own accounts in the securities and other securities of the KfW. The members of the bookrunner syndicate do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so.

Certain statements in this announcement are forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties and assumptions could adversely affect the outcome and financial consequences of the plans and events described herein. No one undertakes any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. You should not place any undue reliance on forward-looking statements which speak only as of the date of this announcement. Statements contained in this announcement regarding past trends or events should not be taken as representation that such trends or events will continue in the future.