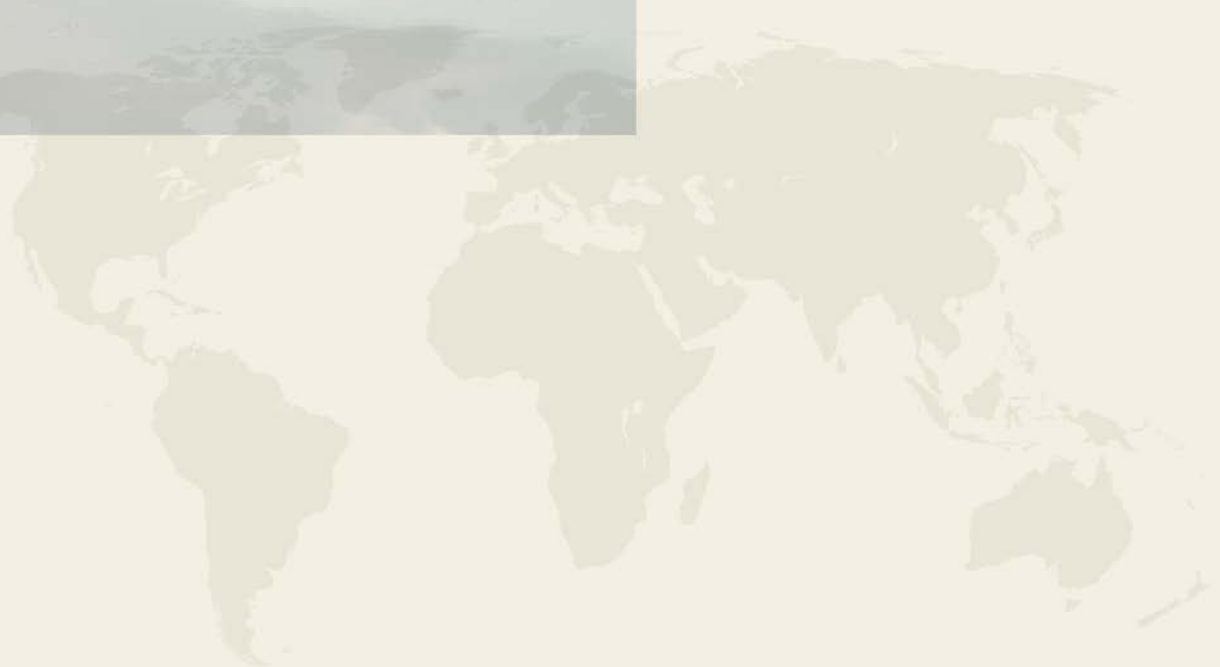


»» Annual Report 2013



KfW Group key figures

KfW Group business activities

	2013	2012	2011
	EUR in billions	EUR in billions	EUR in billions
KfW Group¹⁾	72.5	73.4	70.4
Domestic promotional business ²⁾	51.6	50.6	50.9
Business sector Mittelstandsbank	22.6	24.1	22.4
Business sector Kommunal- und Privatkundenbank/Kreditinstitute ²⁾	28.9	29.3	29.2
of which			
Privatkundenbank	–	17.4	16.7
Kommunalbank	–	9.1	11.8
Capital market-related financings	–	2.7	0.7
Business sector Capital markets	0.7	0.8	0.5
International business	20.5	19.7	19.2
of which			
Business sector Export and project finance	13.7	13.4	13.4
Business area KfW Development Bank	5.3	4.9	4.5
DEG	1.5	1.3	1.2

¹⁾ Adjustment for commitments of Export and project finance with funding from KfW programme loans (2011: EUR 847 million, 2012: EUR 440 million, 2013: EUR 193 million).

²⁾ As of 2013: Merger of Privatkundenbank, Kommunalbank and parts of Capital-market related financings after the reorganisation; before 2013: volumes of Mittelstandsbank and Kommunal- und Privatkundenbank/Kreditinstitute business sectors do not add up to the sum total of domestic promotional business. Commitments resulting from the former Capital market-related financings business area were stripped out.

Key figures of the income statement

	2013	2012 ¹⁾
	EUR in millions	EUR in millions
Net interest income (before promotional activities)	2,997	3,522
Net commission income (before promotional activities)	280	248
Administrative expense (before promotional activities)	976	934
Operating result before valuation (before promotional activities)	2,302	2,836
Risk provisions for lending business	-311	-155
Net gains/losses from hedge accounting and other financial instruments at fair value through profit or loss	138	308
Net gains/losses from securities and investments and from investments accounted for using the equity method	14	74
Operating result after valuation (before promotional activities)	2,143	3,062
Net other operating income	-210	-13
Profit/loss from operating activities (before promotional activities)	1,933	3,049
Promotional activities (expense)	597	560
Taxes on income	63	75
Consolidated profit	1,273	2,413
Consolidated profit before IFRS effects from hedging	1,299	2,259
Cost/income ratio before promotional activities ²⁾	29.8%	24.8%

Key figures of the statement of financial position

	31 Dec. 2013	31 Dec. 2012 ¹⁾
	EUR in billions	EUR in billions
Total assets	464.8	509.4
Volume of lending	432.0	434.7
Volume of business	545.4	585.2
Equity	20.5	18.2
Equity ratio	4.4 %	3.6 %

Key regulatory figures

	31 Dec. 2013	31 Dec. 2012
	EUR in billions	EUR in billions
Risk position	96.0	109.2
Tier 1 capital	19.8	19.8
Regulatory capital	21.4	22.5
Tier 1 capital ratio	20.6 %	18.2 %
Total capital ratio	22.3 %	20.6 %

Employees of KfW Group³⁾

	2013	2012
	5,374	5,190

¹⁾ Restatement of corresponding figures for the previous year in line with "Adjustments to corresponding figures for the previous year due to changes in accounting policies" in the notes to the consolidated financial statements.

²⁾ Administrative expense (before promotional activities) in relation to adjusted income. Adjusted income is calculated from Net interest income and Net commission income (in each case before promotional activities).

³⁾ The average number of employees including temporary staff but without members of the Executive Board and trainees.

»» Sustainably improving living conditions. That is what our work is all about.



RESPONSibility

Climate change, demographic trends and a globalised economy; people across the globe are contemplating how to meet the major challenges of our time.

KfW is one of the world's leading promotional banks. It has been dedicated to improving environmental, social and economic conditions worldwide since 1948 in accordance with its mandate from the German Federal Government and the federal states. KfW's task is clearly defined: It is to work towards sustainably improving living conditions. To this end, KfW is active in all areas where promotion serves this mission.

Assuming responsibility means providing answers – in Germany and around the world.

KfW sets things in motion – experience this report interactively in two ways

01 | App

Download the KfW Annual Report 2013 as a convenient app from the App Store or Google Play Store (search for: KfW Annual Report) or scan the QR code.



02 | Online Check out the Annual Report microsite at: <https://www.kfw.de/verantwortung>

»» Responsible Banking

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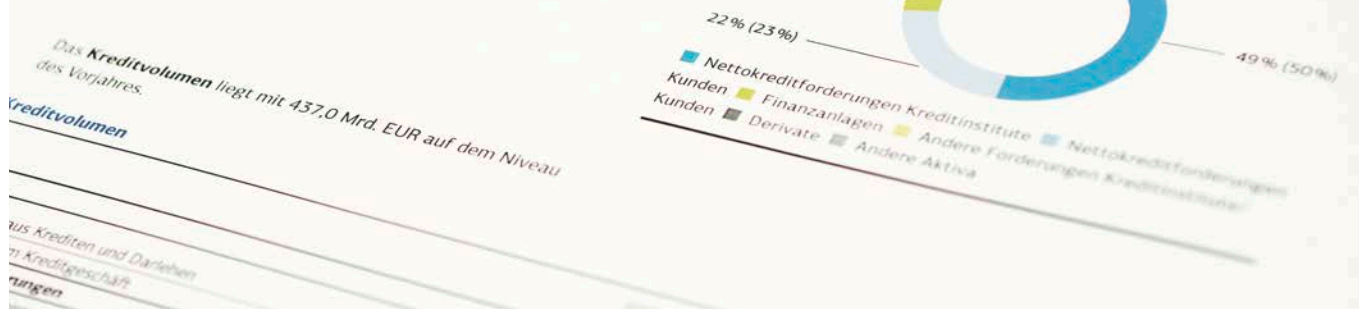


We promote development

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» Capital markets, employees, financial reporting, corporate governance

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»» Assuming responsibility
means giving answers.



“Responsible banking” is a fitting description of what lies at the core of KfW. It highlights the role played by KfW, its motivation and history, in the German promotional business, in development cooperation and in export and project financing, as well as in its capacity as a capital market player and an employer. “Responsible banking” is a promise we make to our business partners, customers and staff, and is testimony to our intrinsic values.

The theme of responsibility is nothing new to KfW as a promotional bank. The KfW Law sets out the bank’s mandate, namely to take promotional measures on behalf of the government for the good of society and to bring about long-term improvements in living conditions. The high demand for our promotional programmes shows that these are not just empty words.

Our promotional activities are focused on three main megatrends that will have a long-term, sustainable impact on the development of our society. The first is how we deal with natural resources, i.e. climate and environmental protection. We have a very successful track record in this area, which accounts for around 40% of our promotional volume. We have been providing targeted support for investment in energy efficiency and renewable energy since 1990. The energy turnaround will remain a key issue in the years to come. The second megatrend is demographic development, which is changing the face of our societies. The changes we are confronted with, however, are entirely different from those affecting developing countries, for example. The third megatrend is globalisation. We no longer live on an island called Germany or Europe. Rather, we interact in a networked world. This means greater international responsibility, but also requires that our domestic economy is kept competitive for the long term.

Some people may dismiss the issue of sustainability as just a fad or fashion. But sustainability is not a buzzword for us. It is the objective behind our day-to-day work. As we understand it, sustainability is about fostering environmentally sound, socially just and economically feasible development. So KfW is already working to ensure that future generations have the same foundation on which to build their lives as we do today. This is the commitment that guides us day in, day out.

That is what we mean by “responsible banking”.

Dr Ulrich Schröder
Chief Executive Officer

»» RESPONSibility

We foster opportunities wherever societies are reshaping themselves.



There is no one-size-fits-all solution for strengthening and promoting a society in such a manner that the people's living conditions and their future prospects improve on a sustainable basis. The realities and challenges in the different countries and regions of the world are simply far too diverse.

In the developing and emerging market countries, the main aim remains combating poverty and giving all people access to food, water and natural resources, to social infrastructure like schools and healthcare facilities and preserving an intact environment for them.

In Germany, demographic change is a major challenge. Here, we are already confronted with a shrinking and aging society. Maintaining and improving our current living conditions with a constantly dwindling workforce is one of the main economic and social tasks we face over the coming decades.

By using customised promotional offerings to reflect these differences and, in so doing, supporting development in different societies in the best way possible, we can help to improve living standards for the long term – in Germany, in Europe and worldwide.

In order to achieve this, KfW has diverse promotional products at its disposal both nationally and internationally. All of these promotional measures are aimed at fostering development in a forward-looking, responsible and successful manner on behalf of the Federal Government – in the world of work, in education and in the fields of energy, living environment and healthcare.

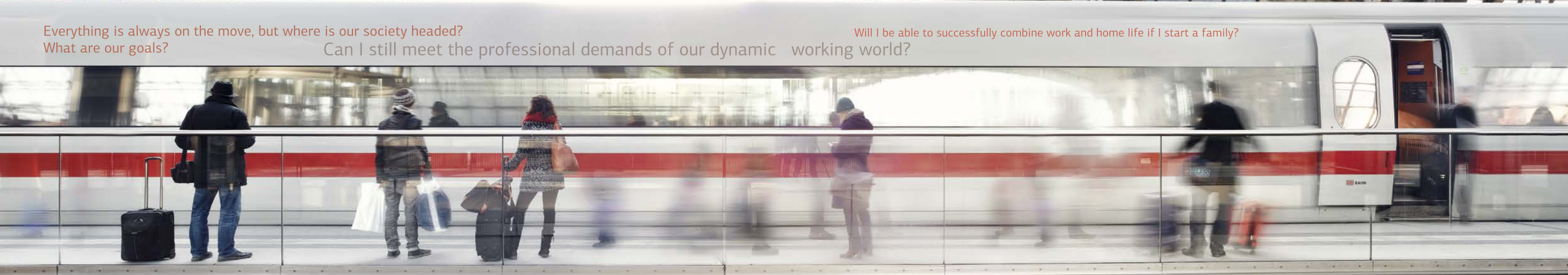
After all, although the challenges of the future call for very different responses in the different countries and regions, it will always be in these five areas that their future is shaped.



Everything is always on the move, but where is our society headed?
What are our goals?

Can I still meet the professional demands of our dynamic working world?

Will I be able to successfully combine work and home life if I start a family?



What professional challenges will our children have to face?

Will my position be outsourced abroad?

When can I retire and will my pension be enough to support me?
Will I have to keep working into old age?

How will networked mobility be possible with an ageing society?
When will electromobility finally become more attractive and affordable?
Will it still make sense to commute in 2030?
What will our society look like in 20 years' time – with so many people over 65?





Can I work in a job that means something to me and still be there for my daughter and mother?

Will we be able to overcome Europe's economic crises together?

Will we be able to continue to coexist in peace and prosperity?

Will we even have enough fuel to commute in the future?

How can we put the advantages of coexisting with people from different backgrounds to even better use from a social, political and economic perspective?

Will I be poor as a pensioner?

Will I be able to cope with the constant stress of my increasing workload?

»» World of work

We are committed to creating new employment prospects across the globe, by promoting the private sector, ensuring secure access to capital and enabling more productive employment by providing better social and economic infrastructures. This enables us to promote a sense of optimism and help people to become active themselves – after all, a job is the best way out of poverty. In Germany, our main focus is on creating a motivating environment, conditions that meet the needs of families and different age groups, that focus on qualified employees and that are fit for the future.

»» Education

»» Energy

»» Living environment

»» Healthcare



Will freedom of reporting for television continue to prevail in our country?

Will our country ever be free from corruption?

Will I still be able to freely practice my religion in my home country in the future?

Why should I bother completing my training when my boss stopped paying me months ago?

Will we see the day when all children in our country have access to education?

How can we break the cycle when access to education remains dependent on income?

How can I manage to study medicine to actively support the healthcare system in my country?

Will we still be able to live in peace tomorrow?

Will I be able to feed my family?



Why are products still processed using harmful substances in the factory where my parents work?

Will our house fall into disrepair because we have no money to fix it?

Will we see the day when all children in our country attend school?

Is living in the city smog harmful to our health in the long term?

When will my family have enough to eat again?

What can I do to have a better future?

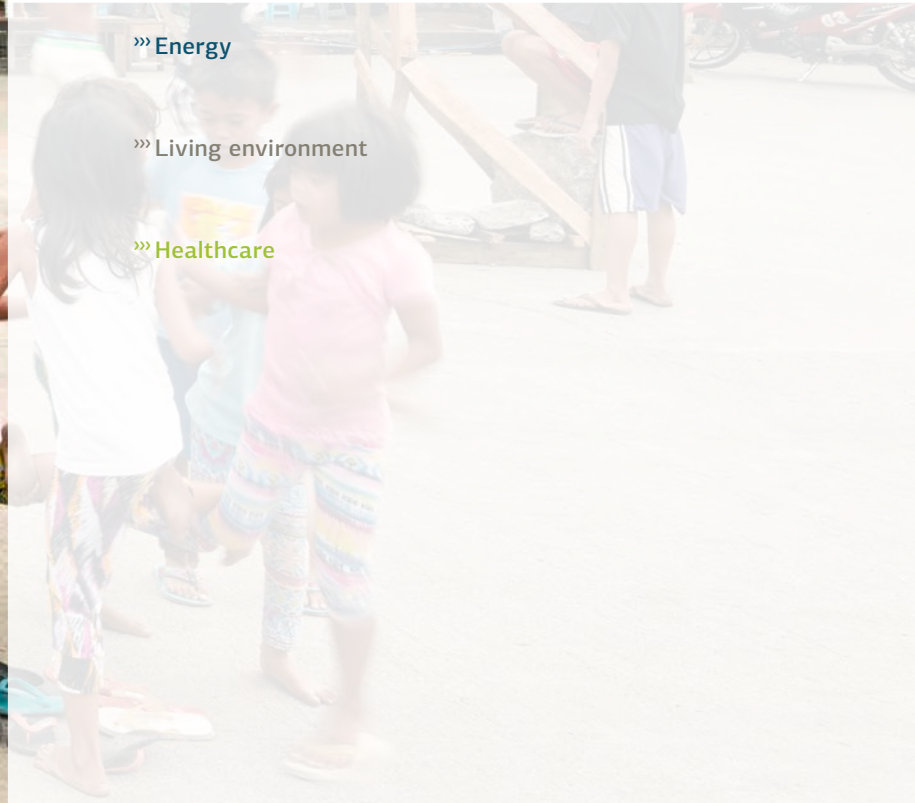
Will I be able to earn money as a footballer?



»» World of work

»» Education

Whether the challenge is combating global poverty or tackling demographic change in Germany – one answer is always right: education. The education projects we promote around the world on behalf of the Federal Government are the key to employment and thus to overcoming poverty. In Germany, our targeted promotion of education measures creates the conditions for realising the creative and innovative potential of our society, thereby securing our international competitiveness.



»» Energy

»» Living environment

»» Healthcare

Will our home become increasingly smart?

What will the next generations think of our casual attitude to burning fuel?

How can we stop global warming and use our resources sparingly?

Will we still be able to pay tomorrow's energy prices?

How can we ensure that everyone embraces sustainable thought and action?

Will we still be able to pay city rents in a few years' time?

Will climate change have even more of an impact on our lives in the future?

The global population is constantly growing – will the world be too small for us all at some point?

Will we achieve a global energy turnaround in time to prevent a climate collapse?

How can my house generate more energy than it consumes?

How can I become less dependent on gas and oil?

How can I create modern and energy-efficient living space for myself?

What will happen when the world's natural resources have been used up?

Will city living be affordable at all in the future?

Are we digitalising our direct relationship with nature away?

When will society understand that more doesn't necessarily mean better?

Will we be able to stop climate change?

»» World of work

»» Education

»» Energy

More and more people across the globe are benefitting from progress. But economic growth also means greater demand for energy. And resources are finite. This is why promoting responsible use of energy is one of our main aims, on behalf of the Federal Government in Germany and internationally via programmes designed to promote greater energy efficiency, renewable energies and innovation. KfW is one of the world's leading promoters of the expansion of renewable energies. The high demands we place on efficiency and environmental sustainability are the same everywhere – around 40% of our total promotional volume is now dedicated to climate and environmental protection projects.

»» Living environment

»» Healthcare

Will men and women have equal rights one day?

Do I have a chance of a secure future?

Why doesn't the government see to it that medical care for the population improves?

Why aren't politicians doing anything to make sure we have clean drinking water?

When will the common fight against hunger in the world be the top priority of all countries?

Will our children's world be a better one, and will they be happy?

How can I protect myself against disease?

Can we really trust our government?

How will our children earn their living?

Will the day ever come when medical care is not a worry?





What can I do to give my family more money to live on?

Will I still be living on the streets when I'm a grown-up?

When will my childhood be free of fear?

Will I ever be able to turn my dreams into reality?

Why don't we have the same medical care as families with more money?

Will my mother survive the birth of my sister if we can't get to the nearest clinic on time?

Will we still be able to live in peace tomorrow?

»» World of work

»» Education

»» Energy

»» Living environment

In order to give people across the globe the security to plan their future, we see it as our duty to use our promotional activities on behalf of the Federal Government to improve the participation of all men, women and children in social, economic and political life – equally and regardless of where they live. At international level, this means contributing to humane, safe living conditions and stable constitutional structures, whereas in Germany, it means putting a solid framework in place for people of all ages.

»» Healthcare



Will the implications of demographic change have an impact on my quality of life when I'm old?

Will medicine be able to diagnose illnesses sooner and better and treat them even more effectively?


Will our physically disabled daughter be able to find a job?

Will we be ensured nursing care and will it be affordable?

How can I make sure that my parents can grow old with dignity despite the emerging care crisis?

How can we get people to focus more on the common good in order to keep society intact?





Will my children take care of me in later life?

Will we be ensured nursing care and will it be affordable?

Will I remain healthy and happy in the future?

Will my pension be enough to live on?

»» World of work

»» Education

»» Energy

»» Living environment

»» Healthcare

Health has a decisive impact on quality of life and people's ability to take part in social and working life. As a result, promoting healthcare in developing and emerging market countries is also a way of combating poverty. In Germany, our duty lies in helping to improve the quality of life for a population living increasingly long – with senior-friendly infrastructure and a high-quality care system.



»» World of work



»» Education



»» Energy



»» Living environment



»» Healthcare



»» We all often pursue our own separate agendas. Will the future see the people of the world come together as one?

»» We create opportunities for more employment

Around the globe, industry is the biggest driver of research and development – and thus also of innovation and sustainable economic growth. There is an increasing focus on the use of production technologies that protect the environment and help to cut costs for the long term. This is because companies have recognised that these very endeavours play a key role in ensuring progress and development – because these innovations are aimed not only at short-term profit, but at long-term market success.

Jobs create opportunities

The global economic momentum also provides attractive conditions for German companies looking to make profitable long-term investments; they can tap new markets to hold their competitive position for the long term and, at the same time, make a contribution to prosperity in the partner countries. After all, jobs generate income and give people the opportunity to live a better life. They contribute to social recognition and integration and can play a crucial role in overcoming conflicts. Creating jobs for young people is particularly important in order to provide prospects for the young generation. »

World of work | International promotional project

“Teach Them to Cook, Feed Them for a Lifetime” – this is the motto used by the CRAVINGS group of companies in the Philippines to offer prospects to young people from socially vulnerable families, among others.





»» KfW only becomes involved in projects that are worthwhile in development policy terms and that are both environmentally and socially sustainable. One example is the CRAVINGS Group in the Philippines.

KfW provides private companies in more than 80 countries around the world with long-term capital and investment advice. In so doing, it has made a conscious decision to only support projects that are not just financially profitable but also make sense from a development policy perspective and are both environmentally and socially sustainable.

One example is the CRAVINGS Group in the Philippines. It is firmly committed to

in-company training, which is one of the factors making it the market leader in the Philippines. CRAVINGS is a food manufacturer, owns its own chain of restaurants and offers several programmes of academic study in the field of catering. Its cookery school, the “Center for Culinary Arts” (CCA) in Manila, offers a broad training programme ranging from Master’s and Bachelor’s degree courses in restaurant management to intensive and taster courses in cooking and baking.



Providing prospects for young people

The cookery students are in high demand in other countries, too, with many of them moving abroad after completing their courses.

Young people from socially vulnerable families can complete six months of free training as a chef, financed by the CRAVINGS foundation – which gives them a chance to free themselves (and their families) from poverty.

These are all good reasons for KfW to promote the expansion of CRAVINGS. KfW has provided the company with two long-term loans worth a total of around USD 20 million via its subsidiary DEG since 2008. The new commitment made in 2013 will allow CRAVINGS to finance a new student hall of residence on the existing campus, as well as a library featuring a research centre. The expansion measures will create 120 new jobs for teachers in the cookery school, and restaurant and kitchen staff. ➤



»» Due to demographic development, KfW's product range in Germany is increasingly used by older entrepreneurs, too.

Supporting all generations

Whereas our international activities are aimed primarily at young people in need of support, demographic development in Germany means that KfW's product range is increasingly used by older entrepreneurs as well. More and more people seek change and independence as they reach middle age. They want to start all

over again. Many of them consciously opt to venture into the world of entrepreneurship. They know what they are capable of and they know what the market wants. So a new professional start can make sense – and indeed prove successful – for people over the age of 40 and 50 too (see right).

»»

World of work

HOW KfW PROMOTES EMPLOYMENT

At **international** level, KfW promotes job creation via the private sector – not only by providing capital, but also via improved overall conditions such as a well-developed infrastructure. In addition, its activities in the fields of micro-finance and its programmes to promote employment specifically help to create more and/or better jobs – for example by reintegrating former soldiers or via social funds.

At **national** level, all SME, residential construction and infrastructure promotion programmes help to secure or create jobs. Start-up financing solutions such as the “ERP Start-up Loan” and the “ERP Capital for Start-ups” programme, as well as the “Master BAföG” programme also represent a key element of KfW's promotional activities designed to strengthen the labour market for the long term. KfW also supports companies in finding successors with its “nexus-change” succession exchange platform.

>>> World of work | National promotional project



She worked in the field of administration for several years before resigning and going to England for a language course. After her stay abroad, she started working in security at Leipzig airport.

This felt like the job where she belonged – until a serious eye condition forced her to start all over again in her mid-50s. A return to her old job was now impossible.

One example of how KfW can help someone to get off to a new professional start

Marion Linke was always open to new ideas. After completing her 10th year of schooling, she trained as a data processing specialist, going on to study business at a university of applied sciences.

Marion Linke started a three-year course to become a physiotherapist, successfully completing her training in 2011. When she decided to open her own practice, she initially had difficulties securing financing due to her lack of significant professional experience. It was not until her bank arranged KfW promotional funding for her that she was able to turn her plans into reality in 2012.





»» Green is my favourite colour. Will I become a gardener someday? Or should I do something with green energy?

»» Will we have to do loads of work in the future or will there be clever robots to help us out?

»» Will I have one job in the future, or a whole lot?

»» We create opportunities for better education

The vicious cycle of educational disadvantage: the poor are less likely to attend school. And those with little schooling stay poor. This is why good education lays the foundation for individuals to improve their own lives.

Good education is essential

Education provides better work and income opportunities and enables people to develop their own talents and interests. Education makes children and young adults more confident, fosters their social skills and equips them with important life skills. Education gives people a voice that allows them to be heard in society. People who can read and write and have know-

ledge are able to assert their personal rights and play an active role in social and political processes. Solid primary and secondary education improves attitudes towards health and nutrition, makes women more independent and thereby promotes gender equality. Education also raises environmental awareness, which lays the foundation for the sustainable use of natural resources.

Many countries that start investing in basic education go on to implement fundamental reforms of the entire education sector. >

»» Education | National promotional project



How KfW is promoting day-care centre expansion in Bergheim

The town of Bergheim built no fewer than four new day-care centres last year, and renovated or expanded six existing

ones. These investments were necessary because of the legal right to a childcare place for all children between their first birthday and the time they start school, which took effect on 1 August 2013. But the 78 new places, 38 of which are earmarked for the under-threes, also give Bergheim a locational advantage that is not to be underestimated, given the challenges posed by demographic change and the need for work-life balance. Furthermore, the new day care facilities boast a flexible design, so that they could also be used for other purposes in the long term – for example as a residential complex for senior citizens.

The project was financed as part of KfW's "IKK – Day-Care Expansion" programme. With the help of promotional funds totalling EUR 550 million, the two programmes, "IKK – Day-Care Expansion" and "IKU – Day-Care Expansion", have created and secured more than 27,000 places for children under the age of three.



Education | International promotional project

The Regional Education Finance Fund for Africa (REFFA) helps African schoolchildren, apprentices and students to finance their training via local financial institutions.

On behalf of the Federal Government, KfW supports programmes like these, particularly in Africa, using “basket funding”. This involves funds from several donors being paid into a special account that is used to finance selected measures such as the construction of schools, initial and further training for teachers, school books, decentralised administrative institutions and direct grants to schools.

Since the German dual training system is held in high esteem worldwide, KfW also promotes vocational training in partner countries. Financing and professional support is offered to equip public-sector

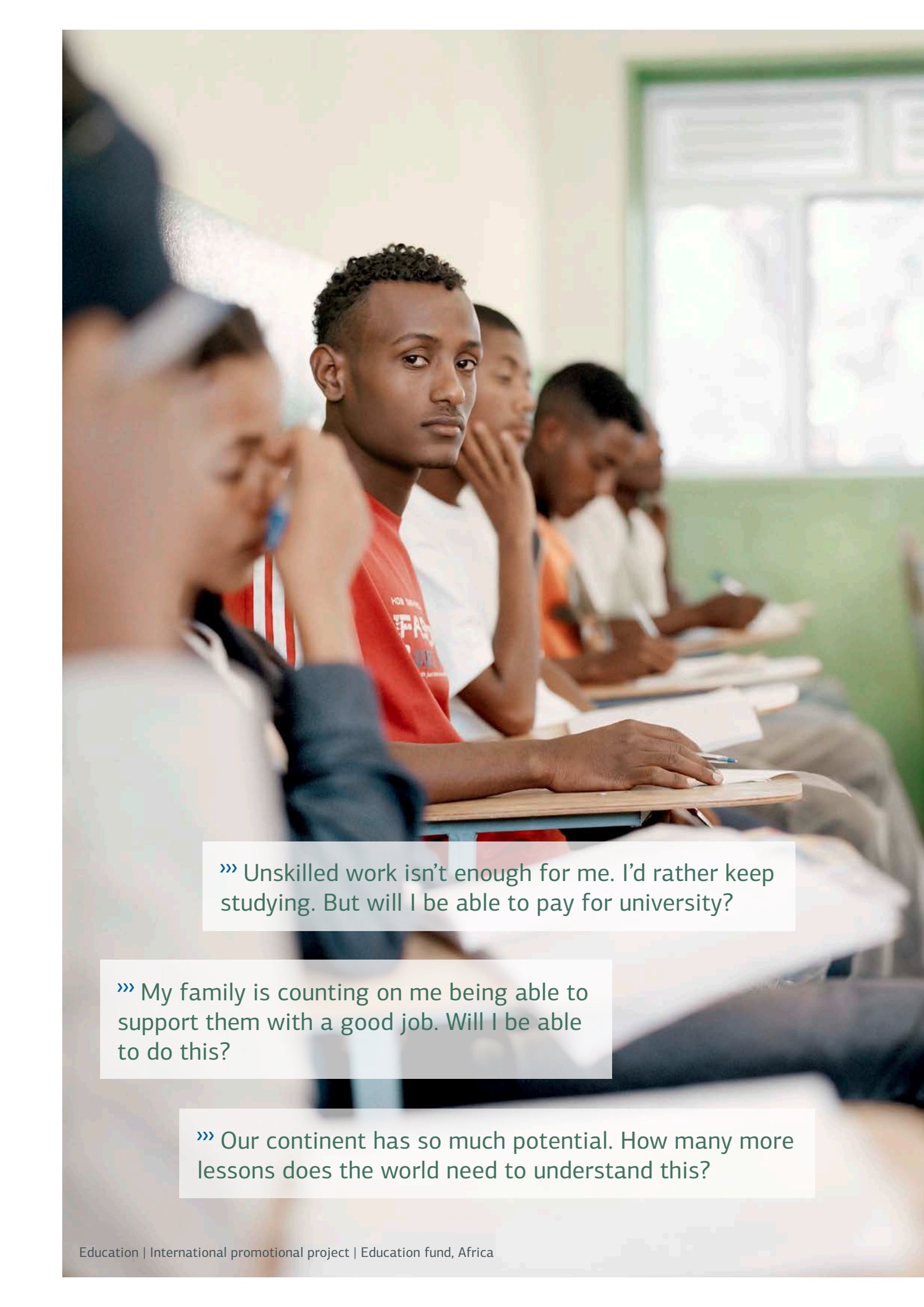
initial and further training centres and to train the managers and teachers. Close cooperation with the private sector means the programmes are focused on specific labour market needs, helping to ensure that people can actually find jobs once they complete their training. On behalf of the Federal Government, KfW is also increasingly promoting projects in the further education sector in order to train more highly-qualified specialists – e.g. an engineering faculty in Namibia and a research project on sustainable land use and climate change with two networks in western and southern Africa.

REFFA – an (education) fund for Africa
In addition to these programmes, which are clearly focused on the supply side, projects aimed directly at the demand for good education are also gaining importance. One example is the Regional Education Finance Fund for Africa (REFFA). This initiative was set up to facilitate demand-oriented and sustainable education financing. The funds, which are provided by the Federal Ministry for Economic Cooperation and Development (BMZ), are earmarked for secondary and further education and vocational training, and for those subjects that are in high demand on the regional job markets. As well as loan products, the initiative also aims to promote saving for education expenses.

»» Close cooperation with the private sector means the programmes are focused on specific labour market needs.

Education as the key to combating poverty and to development – KfW promotes this worldwide.



A young man with short, dark, curly hair is sitting in a classroom, looking off to the side with a thoughtful expression. He is wearing a red t-shirt. In the foreground, the back of a person's head and shoulders are visible, slightly out of focus. Other students are visible in the background, also sitting at desks. The classroom has a green wall and a window with a green frame in the background.

»» Unskilled work isn't enough for me. I'd rather keep studying. But will I be able to pay for university?

»» My family is counting on me being able to support them with a good job. Will I be able to do this?

»» Our continent has so much potential. How many more lessons does the world need to understand this?

» REFFA is the first programme of its kind in Africa, a pioneering project that will hopefully inspire many others.

The fundamental principle behind REFFA is to refinance education loans granted by selected African financial institutions. The fund also supports the participating financial institutions with technical implementation, i.e. product development and sales, with approaches adapted to local context.

The education fund has already been launched in two pilot countries, with plans for other financial institutions to join in the future. The fund is the first programme of its kind in Africa, a pioneering project that will hopefully inspire many more in other regions.

Financing education in Germany

Financing education is a key issue in Germany, too – albeit for very different reasons. The focus here is on securing society's creative potential and thus also the economy's competitiveness on the international stage. Demographic trends mean that, in the future, Germany will have fewer and fewer people of working age who will have to generate prosperity for everyone. They will have to be all the more qualified in order to be able to forge ahead with technological advancement and boost productivity. KfW's products help them to achieve just that – from measures to expand children's day-care centres to the "Master BAföG" programme.




Education

HOW KfW PROMOTES EDUCATION

At **international** level, KfW supports education on behalf of the Federal Government, via infrastructure programmes for the (re)construction, expansion and equipment of sustainable educational establishments that are conducive to learning, by strengthening education providers, particularly in the field of vocational training, and via open programme approaches to promote private and state vocational training institutions, as well as via demand-oriented educational programmes, such as educational loans, education vouchers and scholarships.

At **national** level, KfW uses various programmes to promote degree studies and vocational training – the main approaches are the "KfW Student Loan", the "Master BAföG" programme and the promotion of corresponding investments in municipal and social infrastructure programmes such as kindergartens, schools and sports facilities. All of these measures are helping us to respond to the various challenges created by demographic change in Germany.

A photograph of four people (three men and one woman) sitting on a wooden beam structure in a large, modern hall with a vaulted wooden roof. The people are looking towards the camera. The background shows the intricate wooden structure of the roof and walls.

»» We have already achieved our own energy turn-around. So when is everyone else going to catch up?

»» Will we still be able to afford energy in the future?

»» Fossil fuels are finite. When are we going to stop burning away our resources?

»» We create opportunities for more energy efficiency

Germany has set itself ambitious energy and climate policy targets, with energy savings a particularly important aspect of these initiatives. No other area offers more potential for saving energy than buildings. At present, around 35 % of Germany's final energy is consumed in buildings. Germany's aim is to have its buildings largely climate-neutral by 2050.

(*Wärmeschutzverordnung*) came into force, are energy inefficient.

A good example of energy-efficient refurbishment is the winner of the 2013 KfW Award, organised with the motto "Rediscovered. Redeveloped. Revived.", GbR Cappeller from Halle. The builders discovered the property during a visit to the area, carefully renovated it incorporating creative design elements and breathed new life into it. The warehouse building, which was once used as a grain store and a shop with a gallery now houses seven modern apartments. ➤

Energy | National promotional project

The old warehouse building located directly on Halle's Domplatz square used to store grain. Now, it has been converted into contemporary, accessible and energy-efficient apartments.

The next few years will decide whether this objective can be achieved. Around two-thirds of the residential buildings constructed prior to 1978, i.e. before the first Thermal Insulation Regulation

Energy-efficient construction and refurbishment – how KfW is supporting the energy turnaround (all figures from 2013)



Cultural projects have also made the gallery accessible to the general public again. This has created a new identity for the immediate area and for Halle as a whole. This loving restoration project saw the builders retain the character of the listed warehouse and, at the same time, harmoniously integrate modern aspects of energy efficiency and accessibility in an exemplary fashion.

“Energy-Efficient Refurbishment”

The “Energy-Efficient Refurbishment” programme, which KfW offers as part of the Federal Government’s CO₂ building rehabilitation programme, can be used to finance measures to earn the status of a KfW Efficiency House. But support is also offered for individual measures such as efficient heating systems, ventilation technology, roof or external wall insulation and high-quality windows, provided that the minimum technical requirements are met.

>>> Energy | National promotional project



How KfW is promoting sustainable electricity generation in North Rhine-Westphalia

Together with eight other national and international banks, KfW IPEX-Bank is supporting Stadtwerke Düsseldorf AG with forward-looking investments. The new gas and steam power plant, “Fortuna”, with a capacity of around 600 megawatts, will have been constructed on the site of the existing Lausward power station in Düsseldorf’s port district by 2016. Financing support is also being provided for other investments in the field of renewable energies and in the regional supply network. KfW IPEX-Bank is contributing EUR 82 million to the project.

One million customers

Stadtwerke Düsseldorf is one of Germany’s largest regional utilities companies, reaching well over one million people in Düsseldorf and the surrounding regions. The new power station will make a key contribution to ensuring power supplies

for these people and, with its combined heat and power concept, is also considered an ideal form of transitional technology in the move towards energy generation using renewable energy.

Siemens gas turbine

“Fortuna” will supply the region with electricity and district heating in a particularly environmentally friendly manner; the efficiency values for pure electricity generation are more than 61% and the total utilisation ratio of natural gas will increase to 85%. At the heart of the power plant is a Siemens gas turbine that was awarded the German Industry Innovation Award (Innovationspreis der deutschen Wirtschaft) in 2012.

With these excellent efficiency values, “Fortuna” will be one of the most energy-efficient gas and steam power plants in the world. It will make a major contribution to the ambitious climate protection targets formulated by Stadtwerke Düsseldorf and its shareholders EnBW, GEW and the state capital of Düsseldorf: Düsseldorf aims to achieve climate-neutral status as a city by 2050.

»» Homeowners not only benefit from favourable conditions but can also save on expensive energy.

Together with the Federal Government, KfW supports both individual refurbishment measures to boost energy efficiency and the full energy-efficient refurbishment of properties, as well as the construction of energy-efficient buildings. House and apartment owners not only benefit from the favourable conditions offered by the

KfW promotional products, the measures also allow them to save on expensive energy, protecting themselves against rising energy prices and increasing the value of their property in the process. Furthermore, their investments allow them to make an important contribution to the success of the energy turnaround.

»»» Energy | International promotional project



How KfW is promoting energy-efficient construction in India

India has achieved impressive growth rates of an average of 6% of GDP in recent years. This economic growth has, however, turned the south Asian country into one of the biggest energy consumers and largest emitters of greenhouse gases. India now wants to reverse this trend using targeted promotional programmes to promote better energy efficiency – for example in the residential property sector. After all, just like in Germany, residential buildings in India offer huge potential for energy savings – insulated walls and efficient building technology can help to drastically reduce energy consumption here as well.

The aim was to launch a promotional programme for energy-efficient construction in India. To this end, KfW launched a cooperation between Germany's Fraunhofer Institute for

Building Physics (IBP) and India's "The Energy and Resources Institute" (TERI) in New Delhi in 2010. Together, the two institutions have adapted an existing calculation model to determine the energy saving potential of residential buildings in Germany for use in India. The model calculates the total energy requirements of a building and the amount of energy that can be saved via active energy efficiency measures such as air conditioning and lighting, as well as passive measures such as wall insulation and the use of natural light.

Builders whose new buildings achieve energy savings of at least 18% through passive measures alone, and at least 30% through a combination of active and passive measures can apply for a loan at preferential conditions from the Indian National Housing Bank (NHB). KfW provided the NHB with a credit line of EUR 50 million for this purpose on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ).

These funds have already been used by the NHB to grant around 2,000 promotional loans. The residential properties supported with these loans rank among 14 residential construction projects that have been evaluated and optimised in energy-efficiency terms with the help of the Fraunhofer/TERI model. All in all, these projects comprise more than 20,000 residential units which, combined, will consume around 40,000 megawatt hours less electricity per year than the same number of conventional homes in India. This also means a reduction of almost 37,000 tonnes of carbon emissions every year.

The next step will see KfW supporting the NHB with the development and market launch of an energy-efficiency label for residential buildings in India.



How KfW is promoting energy supply in sub-Saharan Africa

In order for people's living conditions to improve for the long term, they need not only clean water, but also access to energy.

Solar power via text message

In Tanzania and Kenya, more than 85% of households in rural areas are not connected to the electricity grid. DEG is using an innovative solar project to improve the energy supply in off-grid African regions. It is supporting the Berlin-based company Mobisol GmbH in a public-private partnership project in Tanzania and Kenya that develops and markets solar home systems.

What makes Mobisol's concept special is that it links affordable solar systems with the microfinance model and uses mobile telephony for all of the processes involved.

Customers finance the solar system over a 36-month term, after which it belongs to them. They pay the monthly installment via text message using the mobile payment system (M-Pesa). Only then does the system provide them with electricity. Overall, the solar system costs less than the amount customers previously had to pay for fossil fuel-based energy. The system is managed and monitored using an Internet-based database in Germany. Action can be taken promptly if technical problems arise, or the local maintenance service can be commissioned to carry out repairs.

The local economy reaps multiple benefits from the innovative project; partner companies are in charge of sales, installation and the maintenance of the systems. Micro businesses can use electricity to employ more efficient production technology, giving rise to new business ideas. Surveys conducted during the pilot phase show that around 30% of Mobisol's customers have started business activities using the electricity generated by the system.





Energy

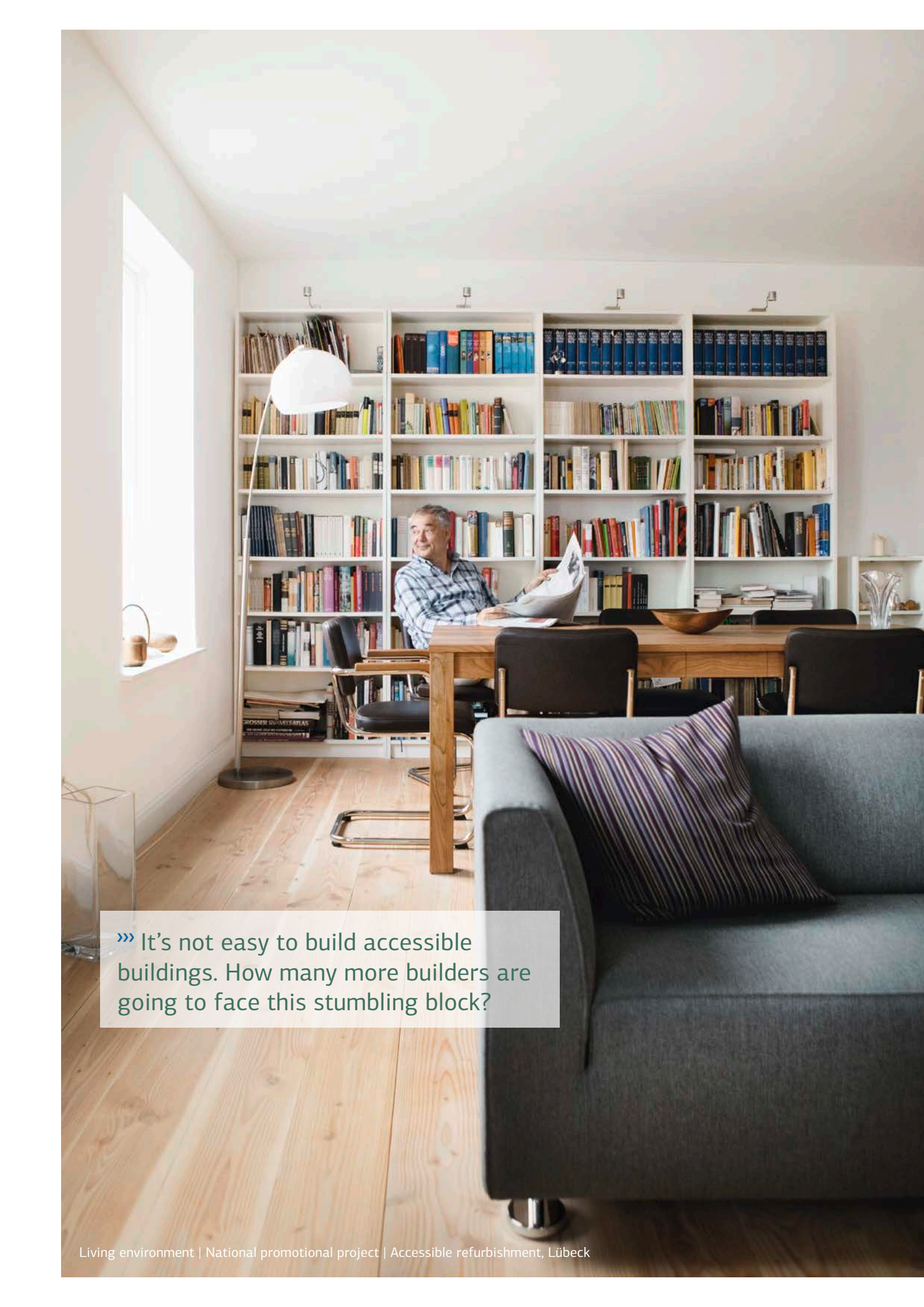
HOW KfW PROMOTES ENERGY SUPPLY AND EFFICIENCY

The German government has set itself the **international** target of giving another 100 million people access to modern energy by 2030. KfW is helping the Federal Government and its partner countries to achieve this objective. Access to modern energy is not a luxury but a fundamental requirement for fighting poverty and ensuring sustainable development. A reliable energy supply is also a key factor for a successful economy. Energy demands are set to increase considerably over the next few decades, particularly in emerging market and developing countries – with potentially negative consequences for the climate and the environment. This is why KfW is supporting these countries with the sustainable construction and conversion of their energy supply systems.

The energy projects that KfW promotes cover the entire process, from electricity generation to efficient electricity transmission and distribution. It also supports grid-free solutions for remote areas – households and businesses are provided with modern energy for cooking, heating and operating machinery. Renewable energy sources offer massive potential in this respect, and not just in electricity generation. But promoting the efficient use of energy is just as important as ensuring an energy supply that conserves resources. This is why KfW is financing promotional programmes for more energy efficiency in the residential construction segment, the manufacturing sector and in public-sector institutions, for example.

In Germany, KfW has launched the “Energy Turnaround Action Plan” with the motto “The energy turnaround – we promote it”. It uses targeted financing offerings to promote municipal, private and entrepreneurial activities in the areas of energy efficiency, renewable energy and innovation. The Action Plan comprises the “KfW Energy Efficiency Programme”, the KfW “Offshore Wind Energy” programme, products for the energy-efficient construction and refurbishment of residential buildings, products for energy-efficient urban renewal and municipal energy supply, the KfW “Renewable Energies” programme, the “ERP Innovation Programme”, and the “Energy Turnaround Financing Initiative” programme.

The KfW Action Plan is part of the Federal Government’s Energy Turnaround Financing Initiative. This is also one of the priority areas of KfW IPEX-Bank. For example, the market bank finances renewable and highly efficient conventional energy projects and is committed to financing investments in energy-efficient and environmentally friendly production facilities in the industrial sector, as well as in environmentally friendly means of transport.



»» It's not easy to build accessible buildings. How many more builders are going to face this stumbling block?

»» We create opportunities for a better living environment

Be it the environment, construction, business or public-sector projects – as the promotional bank of the German Federal Government and the federal states, KfW supports social and public-sector institutions as well as companies and private individuals with the objective of promoting society and sustainable development.

Individuals tend to become KfW customers when they invest in their own property – thanks to the programmes for home ownership, energy-efficient refurbishment, new energy-efficient construction and improving accessibility. This is an area in which KfW sets recognised standards; “KfW 70” and “KfW 40” have

long been the benchmark for homes with a particularly good energy balance. KfW funds can also be used to structure projects individually – for example by making buildings more accessible or renovating listed properties. In cases like these, the promotional conditions are adapted to suit the special features of the buildings.

One example is the “Alte Schule” project in Lübeck, which took 3rd place in the 2013 KfW Award. The former school building in Lübeck’s old town was rehabilitated, energetically improved and modernised. The apartments are accessible and everyone can use the garden. ➤

Living environment | National promotional project

A former school in the heart of Lübeck’s old town is now not only an accessible residential building containing eleven rental apartments but also a café and the gateway to historical gardens. A project that benefits the tenants, the builders and the town’s residents.



»» On behalf of the Federal Government, KfW helps partner countries across the globe to offer their populations more reliable prospects.

“An exemplary conversion project that truly embodies benefits to society and respect for tradition”, was the verdict reached by the jury on the Lübeck project. The builders transformed a building formerly used as a school into a multiple-family dwelling featuring ten residential units suited to all generations, implementing a modern energy concept at the same time. They also performed exemplary work in lovingly incorporating a café run by a charitable organisation and employing people with disabilities into the project.

The former classrooms were converted into loft-style apartments, while the sports hall was turned into a maisonette apartment. The historical facades were reconstructed with keen attention to detail. The listed

building now documents its 700 year-old past – and at the same time, constitutes a residential complex that is fit for the future thanks to its accessibility and high energy efficiency. Its central location at the heart of the old town district allows it to rejuvenate the surrounding area in three ways at once: through the tenants of the eleven apartments, the café on the lively street and the idyllic garden landscape in the interior of the block, which is open to all residents and visitors to Lübeck.

The KfW Award for Construction and Housing

As one of the largest promoters of home ownership in Germany, KfW has been presenting the KfW Award for construction and housing every year since 2003. The

»» Living environment | National promotional project



How KfW is promoting water supply and hygiene in Pakistan

More than 140 rural water supply and wastewater systems were built or refurbished on behalf of the Federal Foreign Office. In addition to the construction measures, KfW also finances hygiene and health advice.

The project is bearing fruit: the eradication of many water-borne diseases and the installation of water points on farms, making life considerably easier, have significantly improved life and survival in this mountainous region between the Hindu Kush and the Himalayas. The local people see new prospects in their austere small-scale farming lives, significantly reducing migration to the large cities in the lowlands of the project region, which are already home to millions of people. The programme has also had a substantial effect in terms of promoting peace; it has defused numerous conflicts between individual villages regarding water rights and use.

The programme was launched in August 2010 and will end in mid-2014. The local implementing agency is the Aga Khan Foundation Pakistan.

award recognises exemplary residential projects and is dedicated to a special theme every year. The aim is to provide impetus to revive home ownership and highlight forward-looking trends in Germany. The Award's motto in 2013 was "Rediscovered. Redeveloped. Revived." – inspired by the hidden treasures in many older buildings. The KfW Award winners and many other builders are converting these unused buildings into residential

space, breathing new life into dead zones in the middle of urban areas.

But it is not just in Germany that KfW promotes the development of sustainable living environments. On behalf of the Federal Government, KfW helps partner countries across the globe to offer their populations more reliable prospects. Rapid population growth and high rates of migration to cities mean that improv-

ing living standards in urban and rural areas alike is one of the most pressing issues. Cities need infrastructure to allow them to cope with the large number of people. In rural areas, it is crucial to create conditions that will allow people to stay – for example with water projects like the one in Pakistan (see left).

>>>

Living environment

HOW KfW PROMOTES INFRASTRUCTURE

At **international** level, KfW works on behalf of the Federal Government to promote the development of sustainable living environments in a variety of ways, primarily via projects that give people access to long-term, sustainable energy, clean drinking water, sanitary facilities and waste disposal, but also via rural development and investment in transport and traffic systems. Another important issue is providing social security in the event of illness via voucher systems for maternal health and the treatment of sexually transmitted diseases, and ensuring safe childbirth, social insurance concepts and micro-insurance. There are also numerous projects to provide basic social security benefits, to support particularly hard hit groups by granting them access to government social services and emergency aid programmes, and to support processes aimed at reforming the social security structures.

At **national** level, KfW supports senior-friendly infrastructure – for example with programmes such as the "Senior-friendly Conversion" and "Accessible City" programmes. However, KfW also offers products designed to tackle issues like private retirement provision – via home ownership programmes and family policy, in particular childcare.

As a special-purpose bank, KfW IPEX-Bank also supports the expansion of social infrastructure such as new hospital buildings and also finances projects to modernise administrative buildings as part of public private partnerships (PPP). An efficient transport infrastructure is of key importance to business and society. In this context, KfW IPEX-Bank finances investments both nationally and internationally in ships, aircraft and rail vehicles, infrastructure such as roads, railways, ports and airports, as well as electricity grids and data networks.



»» I love going shopping, but I need a clear path of travel. When will we finally have more accessible buildings?

»» We create opportunities for better health

There are not many things that everyone in the world wishes for to the same extent. But good health is certainly one of them. This is because good health means the same to everyone: more quality of life, more participation, more opportunities to shape your own life. This is why KfW is committed to numerous projects aimed at improving people's health worldwide.

Improving living conditions

In Germany, the main emphasis is on projects that focus on improving living conditions. The mobility solutions offered by PARAVAN GmbH are one example. They make people with disabilities more mobile by allowing them to drive cars just like everyone else. The company offers

increased mobility even to people with several or very severe disabilities. With unique technical innovations and fully customised equipment, products such as vehicle conversions, electric wheelchairs, seating solutions, driver assistance systems and mobility trainers help disabled people with day-to-day life. At present, KfW is supporting no fewer than four

development projects using funds from the "ERP Innovation Programme". These include a special touchscreen display for vehicle operation, the further development of joystick controls for vehicles and the development of a standing wheelchair with biometric joints. >

»» KfW is committed to numerous projects aimed at improving people's health and quality of life worldwide.

Healthcare | National promotional project

One example of successful health innovations with the "made in Germany" quality seal: the mobility solutions offered by PARAVAN GmbH that make day-to-day life easier for people with disabilities.





How KfW is promoting family planning in Burundi

Burundi is a country with a rapidly growing population. KfW has been supporting healthcare projects in this east African country on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) since the mid-1990s. After the civil war came to an end there in 2003, cooperation focused primarily on promoting independent family planning.

Information and communications campaigns, further training for medical staff and the purchase of contraceptives and medical equipment resulted in a fivefold increase in the proportion of women of child-bearing age using modern means of contraception on a regular basis. All in all, the project has made a real contribution to ensuring that the healthcare system is more in tune with what the population needs and, in particular, that women are able to plan their families as they wish.

Health – a basic right.

Improving health and strengthening healthcare infrastructure – objectives that KfW promotes worldwide.

» Current financing volume of around EUR **1.6** billion

» Support for **140** healthcare projects
in **36** countries

» Focus on reproductive health = **57** projects

» Around **965** million people are benefiting directly or indirectly from the current projects

» In addition: improving healthcare infrastructure, fighting infectious diseases, healthcare policy and administration programmes, medical research

Source: KfW position paper, portfolio analysis in the healthcare sector in 2013, as of: April 2013

In developing and emerging market countries, the challenges facing the healthcare sector are much more fundamental. A third of people around the world still do not have access to adequate healthcare. Every year, 287,000 women die during pregnancy or childbirth. Targeted family planning alone could help to save one in four of them. But more than 200 million couples in developing countries do not have these options open to them. Working on behalf of the Federal Government, KfW is one of the three main bilateral donors for the provision of modern contraception. It provided total financing of USD 15 million in 2012.

Many developing countries still do not have effective healthcare systems to this day. Large parts of the population – particularly the poor and those living in rural areas – do not have access to adequate medical care. In the countryside, there is often not even a basic level of care. And yet health is a basic human right and plays an important role in successful economic development.

Collaboration with a large number of partners

This is why, on behalf of the Federal Government, KfW is helping partner countries to improve their healthcare systems and,

as a result, the health of their people, for the long term. It works closely with national and international partners in this quest. At multilateral level, for example, it cooperates with the World Bank, the United Nations Joint Programme on HIV/AIDS (UNAIDS) and the European Union. At bilateral level, KfW works with donors like the French development bank AfD and the U.S. Agency for International Development (USAID) and, within the framework of German development co-operation, with Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) and non-governmental organisations.

»» A third of people around the world still do not have access to adequate healthcare.

»»»

Healthcare

HOW KfW PROMOTES HEALTH AND LONG-TERM CARE

Internationally, KfW's promotional activities focus on issues ranging from healthcare financing and infrastructure to medication supply, preventing and fighting disease, promoting reproductive health and associated issues such as family planning, safe pregnancy and maternity, childbirth with medical support on hand, the fight against sexually transmitted diseases like HIV/AIDS and raising awareness of female genital mutilation. KfW also supports private and government healthcare sector programmes in a large number of countries.

At **national** level, KfW primarily helps to finance hospitals, care homes and facilities for people with disabilities through its infrastructure programmes. Promotional programmes for entrepreneurs and SMEs are also available to companies in the healthcare sector. KfW also supports medical technology projects with its promotional programmes for innovation.

Dear Readers,

2013 was a successful promotional year. The high demand for financing with help from KfW shows that our programmes are meeting the current needs of companies, municipalities and private clients to a high degree. However, last year is also testimony to how demand is adjusting to reflect the financial and economic environment and to how KfW is performing its subsidiary role.

As in previous years, KfW Group witnessed strong demand for its financing products in 2013, making promotional commitments worth a total of EUR 72.5 billion (2012: EUR 73.4 billion). Focal areas of the bank's activities remained promoting SMEs and climate and environmental protection, in particular supporting the Federal Government with the implementation of its energy turnaround targets.

Among the financing products aimed at SMEs, there was particularly high demand for the programmes to improve companies' energy efficiency, the start-up and innovation programmes and general long-term investment financing. The demand for loans among companies, however, tapered off during the course of the year, a trend that also had an impact on the demand for commercial promotional loans. All in all, this meant that at EUR 22.6 billion, commitments made to start-ups and SMEs were down slightly on the prior-year volume of EUR 24.1 billion. SMEs account for 47% of domestic promotion. The group-wide financing measures in the field of climate and environmental protection accounted for a total commitment volume of EUR 27.8 billion (2012: EUR 29.2 billion). The associated group-wide environmental ratio of 38% (2012: 40%) falls within the target area. Municipal infrastructure financing also showed encouraging development, with considerable growth of 22%.

At EUR 20.5 billion, the foreign business volume was up by 4% (2012: EUR 19.7 billion). This growth was driven by the Export and project finance business sector, by the business area KfW Development Bank and the subsidiary DEG.

Results of the activities of the individual business sectors

2013 saw the Mittelstandsbank business sector achieve a new business volume of EUR 22.6 billion (2012: EUR 24.1 billion). The key promotional area start-ups and general corporate financing accounted for a total commitment volume of EUR 11.3 billion (2012: EUR 11.1 billion), largely due to the high demand for the "KfW Entrepreneur Loan". In the focal area of environmental protection, the commitment volume was EUR 10.3 billion (2012: EUR 12.0 billion).

This figure includes the "KfW Energy Efficiency Programme", which showed very positive development with a volume of EUR

4.7 billion (2012: EUR 3.5 billion), whereas the commitment volume for KfW's "Renewable Energies" programme was down considerably to EUR 4.7 billion (2012: EUR 7.9 billion) due to changes in the overall conditions.

The new Kommunal- und Privatkundenbank/Kreditinstitute business sector, which was set up as part of the modernisation of KfW, achieved a promotional volume of EUR 28.9 billion in 2013 (2012: EUR 29.3 billion). EUR 15.6 billion of this amount was attributable to the housing promotional area (2012: EUR 15.1 billion). Commitments worth a total of EUR 10.4 billion (2012: EUR 9.9 billion) were made in the energy-efficient construction and rehabilitation programme group.

Municipal infrastructure financing accounted for a total new commitment volume of EUR 4.7 billion (2012: EUR 3.8 billion). Within this context, particular promotional impetus was provided by the "IKK – Investment Loans for Municipalities" and "IKU – Investment Loans for Municipal Enterprises and Social Organisations" programmes, as well as by the special programmes for day-care expansion. Commitments in the promotional focus area of "Education and Social Development" totalled around EUR 2.6 billion (2012: EUR 2.3 billion). With a volume of EUR 1.4 billion (2012: EUR 1.1 billion), the "KfW Student Loan" showed particularly encouraging development, with the product expansion measures introduced in 2013 contributing to a marked increase in the commitment volume. The volume of general funding for the promotional institutions of the federal states (LFI) slipped back to EUR 3.6 billion (2012: EUR 5.3 billion) due to subdued uptake. In the "Individual financing banks" focal area, the volume of new commitments was EUR 2.5 billion (2012: EUR 2.7 billion). This includes two global loans granted by the Federal Government to the Spanish promotional bank ICO (Instituto de Credito Oficial) worth a total of EUR 1 billion. The Capital markets business sector contributed a volume of EUR 651 million (2012: EUR 825 million) to securitisation transactions relating to German SME loans and leasing receivables.

The Export and project finance business sector, which is under the responsibility of the KfW subsidiary KfW IPEX-Bank, achieved a new commitment volume of EUR 13.7 billion (2012: EUR 13.4 billion). The maritime industry (EUR 2.8 billion) and energy and environment (EUR 2.5 billion) were especially significant here. A considerable portion of commitments in maritime industry related to investments in offshore projects, passenger ferries and, in particular, cruise ships. The commitment volume relating to energy and environmental projects reflects one of the bank's stated aims, namely to use its financing activities to make a key contribution to energy efficiency, and environmental and climate protection.

The commitment volume in the Promotion of developing and transition countries business sector was EUR 6.7 billion in 2013 (2012: EUR 6.2 billion). In a year-on-year comparison, the KfW Development Bank business area increased its commitments on behalf of the Federal Government by around EUR 350 million to EUR 5.3 billion. The regional focus here was on Asia with EUR 1.7 billion (2012: EUR 1.6 billion), followed by sub-Saharan Africa with EUR 1.2 billion (2012: EUR 870 million). In its strategic focal area of climate and environmental protection, KfW Development Bank maintained its promotional activity at the high level of EUR 2.8 billion, as in 2012. The corresponding environmental ratio was 53%. KfW's subsidiary DEG, which is active in financing private enterprises in developing and emerging market countries, saw its financing volume increase again in 2013 to almost EUR 1.5 billion (2012: EUR 1.3 billion). Around EUR 326 million was made available in 2013 for investments in Africa, one of DEG's strategic objectives (2012: EUR 235 million). This new high was reached thanks to the large number of commitments made in the financial and infrastructure sectors. The financing volume for investments to promote climate protection, adapting to climate change and environmental protection amounted to EUR 649 million (2012: EUR 578 million). Financing for renewable energy projects was a focal point.

KfW raised EUR 65.4 billion in long-term funds to refinance its promotional business on the international capital markets in 2013 (2012: EUR 78.7 billion), issuing more than 210 bonds in 13 different currencies and benefiting, in particular, from the continued demand for high-volume liquid bonds (benchmark bonds) among investors. At 59%, these bonds account for one of the key pillars of KfW's overall funding concept. The euro and the US dollar were the most attractive fund-raising currencies, with their share expanding to 87% as a result. The international media bestowed several awards on KfW in recognition of its successful capital market year 2013, one example being a "Kangaroo bond" issued by KfW and accounting for a total issue volume of AUD 1 billion rated as "excellent" by the specialist magazine KangaNews. This year, KfW aims to raise between EUR 65 billion and EUR 70 billion. KfW considers itself ideally placed to achieve its planned refinancing volume with the explicit, direct guarantee by the Federal Government. KfW already raised new funds to the tune of EUR 10.1 billion in January, including its 200th "Uridashi bond". Uridashi bonds are bonds issued by non-Japanese issuers that are tailored to suit Japanese private investors. KfW has used these to mobilise an equivalent of EUR 13.8 billion within the last twelve years to fund its promotional activities.

Operating result in financial year 2013

Earnings were, as expected, lower than in 2012, when financial performance was shaped by positive extraordinary effects in net interest income and the valuation result. Despite the high charges from the one-time substitution of federal funds totalling EUR 264 million, consolidated profit is in the range of long-term earnings potential at EUR 1,273 million (2012: EUR 2,413 million).

At EUR 2,302 million (2012: EUR 2,836 million), the Operating result before valuation (before promotional activities) remained at a high level and normalised in line with expectations. This is due, in particular, to the development of net interest income

(before promotional activities), which fell largely as a result of declining interest structure contributions.

The valuation result closed with a moderate expense in net terms and thus better than expected. This was caused firstly by the lower than projected net charges from risk provisions for lending business, and secondly by the positive contributions to earnings from the securities and equity investment portfolios.

The promotional activities of KfW in domestic business increased to EUR 597 million (2012: EUR 560 million) causing a negative impact on the Group's earnings.

The consolidated total assets of the Group fell considerably by EUR 44.7 billion to EUR 464.8 billion. This fall is primarily due to interest-rate and exchange-rate induced fair value changes in the derivatives used for hedging purposes and their recognition in hedge accounting.

Despite the strong new business volume, net loans and advances fell due to high unscheduled repayments in the domestic promotional loans business.

Ensuring future viability

In order to continue to meet the high demand for long-term loans in an environment characterised by changing customer needs and

increased regulatory requirements, KfW has systematically forged ahead with its modernisation measures, reaching major milestones in the process. These modernisation measures will ensure that KfW can continue to fulfil its promotional mandate despite changing overall conditions. This process, commenced in 2009, is based on four fundamental principles: "strategic focus", "customer orientation", "efficiency" and "professionalisation".

KfW continues to rely on its tried-and-tested promotional model for **strategic focus**. As a bank committed to responsibility, KfW is a value-oriented organisation. Its actions are based on the principles of sustainability in terms of content, and subsidiarity in terms of regulation. KfW's strength lies in



Dr Ulrich Schröder (Chief Executive Officer)
Dr Günther Bräunig
Dr Norbert Kloppenburg
(upper row from left to right)

Dr Edeltraud Leibrock
Bernd Loewen
Dr Axel Nawrath
(lower row from left to right)

providing long-term financing at attractive conditions, serving customers largely via their own banks – as KfW's partners – based on the established on-lending principle. KfW refinances itself via the capital market on the basis of a guarantee provided by the Federal Republic of Germany and the top ratings awarded to it as a result.

KfW is continually facing new challenges due to rising political expectations, for example financing the energy turnaround. KfW is also in demand at international level, where it supports the establishment of European promotional banks, for example.

Last year, KfW revised its offering and service to focus even more on its customers' needs. This **customer orientation** was, and indeed is, aimed at the informed consumer: everyone who needs promotional support should be familiar with what KfW has on offer. In this context, KfW used several product campaigns - including two featuring TV advertisements in 2013 – to boost its recognition level significantly, namely by six percentage points. These campaigns will be continued in 2014. The main information medium for customers is the revamped website at kfw.de. The digital revolution presents opportunities for KfW. In September 2013, it successfully launched a feature allowing customers to submit requests for advice to partner institutions directly via the KfW website. There are plans to allow instant online commitments to be granted for selected promotional projects with an initial group of partners in the course of 2014. The on-lending concept and focus on the needs of our customers will continue to form the basis for our activities.

We also exploit **efficiency** potential by standardising products, i.e. reducing their complexity, and optimise processes across the entire financing life cycle. This forms the basis for automated

promotional loan approvals. In this respect, our structure is clearly split into roles for the front office, the back office and the lending service. All of these aspects allow us to offer a much faster application process, something that will benefit our customers, our bank partners and KfW itself.

The application of the German Banking Act (KWG) is one key feature of the **professionalisation** process within KfW Group. The enactment of a regulation in October 2013 signalled the last step in the process of applying provisions set out in the German Banking Act and the Capital Requirements Regulation (CRR) to KfW, as well as involving the Federal Financial Supervisory Authority (BaFin) and the Bundesbank. Most of the regulation will come into force in 2016. In the meantime, KfW will be gradually implementing the requirements set out in the regulation. KfW's status remains unchanged. It will not be classed as a credit institution or a financial services institution within the meaning of the German Banking Act in the future either. Consequently, as a public sector entity, KfW has been exempted from the banking supervision regulations set out by the European Union. As part of a step-by-step plan, organisational structures have already been adjusted and projects and BaFin workshops organised. Furthermore, KfW IPEX-Bank is currently involved in a balance sheet assessment regarding possible ECB (European Central Bank) supervision.

KfW highlighted its important role again in 2013 for environmental protection, business and society as a modern, professional and customer-oriented promotional bank. It has made sustainable promotion its guiding principle and helps to ensure that the challenges of our time can be mastered successfully, while strictly adhering to the subsidiarity principle. KfW takes responsibility as a reliable partner – in Germany and around the world.



Dr Ulrich Schröder
(Chief Executive Officer)



Dr Günther Bräunig



Dr Norbert Kloppenburg



Dr Edeltraud Leibrock



Bernd Loewen



Dr Axel Nawrath

»» We promote Germany

We finance investments in the future by people in Germany; we finance SMEs so that the German economy remains strong, and we finance municipal and social infrastructures in order to advance structural change and the common good.

»» At a glance: domestic promotion in 2013

KfW provided more than EUR 51 billion in promotional funds to its domestic clients in 2013.

The high demand resulted in a year-on-year rise in the domestic promotional volume. Support focused on promoting SMEs and on energy, climate and environment. Since the Federal Government launched the energy turnaround in 2011, climate and environmental protection as well as

energy efficiency issues have steadily gained in social and economic importance – a trend that is set to continue. KfW has significantly expanded its promotion in these areas, and will continue to lend impetus as a partner to the Federal Government.

»» Energy efficiency and physical accessibility set a precedent

In addition to energy efficiency, many home builders and improvers focus on physically accessible and comfortable housing. KfW supports both these areas – as in the extensive rehabilitation undertaken on a former school building in the historic old town area of Lübeck. The builders cleverly combined physical accessibility, energy efficiency and preservation of the building as a listed monument. Insulation, a ventilation system with heat recovery and a cogeneration unit are components of a modern energy concept realised for this building in line with its listed status. In addition to construction of a number of apartments suited to all generations, featuring accessible bathrooms, broad doorways and dwelling spaces, that are accessible via a lift, the plan also included integration of a cafe for the physically disabled on the ground floor. This project, whose exemplary realisation embodied a high degree of social benefit and loyalty to tradition, was presented with the KfW award.

More support for climate and environment

Almost half of all domestic promotional funds (43%) now goes to investment projects in climate and environmental protection by private individuals, companies and public institutions. All support the Federal Government in achieving energy targets, with KfW's help. KfW promoted domestic environmental projects with a volume of EUR 22.2 billion in 2013. KfW further improved its promotional offering in 2013, thereby opening up new promotional opportunities. For example, in May, the "Renewable Energies – Storage" programme was launched to promote battery storage for photovoltaic systems. With this programme, KfW aims to promote development of storage technologies and support producers of small battery storage systems in tapping and penetrating the market. The programme has been very well received.

The "KfW Energy Efficiency Programme" set a promotional record in 2013 in the support of commercial energy efficiency measures. At EUR 4.7 billion, the financing volume significantly exceeded that of the previous year (2012: EUR 3.5 billion). The promotional focus was on new commercial buildings with low energy consumption and on plant retrofitting including highly efficient interdisciplinary technologies. The "Energy-Efficient Construction" and "Energy-Efficient Refurbishment" programmes remain very popular – not least due to further improvements in promotional conditions – and with a commitment volume of EUR 10.4 billion and more than 210,000 projects financed, have also set a new record. Promotion has been granted for energy-efficient construction and refurbishment of well over 3 million homes since 2006, with an award presented to the 3 millionth home in July 2013.



Christian Rosehr, Martin Kraus and Kai Schumann (builders of the Alte Schule project, Lübeck)

Day-care programmes exceed all expectations

KfW supports cities and municipalities with a promotional offering so that they can react to social changes and reliably finance future-oriented investments. Funds totalling almost EUR 4.7 billion went to municipalities and to municipal and social institutions. KfW also launched some new programmes in this area as

well. These included two programmes to expand day-care offerings aimed at supporting municipalities in fulfilling the legal rights parents have to childcare for children under the age of three. The demand for both programmes offered in conjunction with the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth was so large that the supply was exhausted despite a strong replen-

ishment before the end of the year. Overall, around 27,000 day-care places were funded with EUR 550 million, advancing the provision of day-care places for the under-threes across the country.

Flexible student finance

There were also new developments in the “KfW Student Loan”. This loan offering was better aligned to academic requirements and student needs in the summer semester of 2013. The programme now also promotes further academic training, with flexible financing available for all courses of study, whether full or part-time. More than 33,000 commitments were made, totalling almost EUR 1.4 billion.



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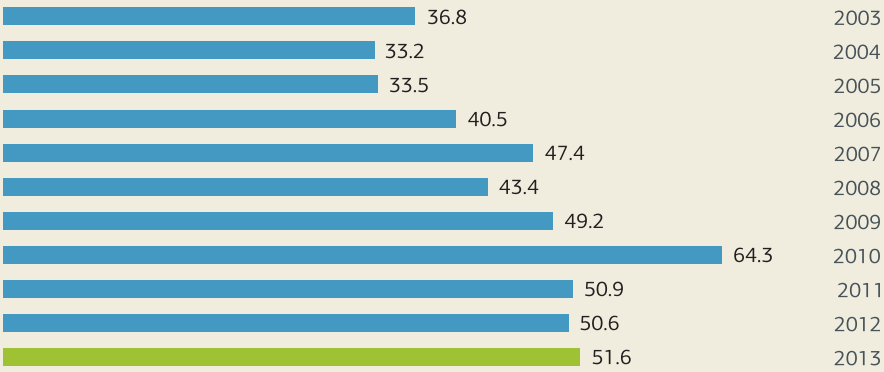
Demographics start in kindergarten

Plenty of space to play under good supervision in inviting modern day-care facilities, for the very young as well – everyone from children and parents to municipal authorities are happy about that. The town of Bergheim made a substantial investment to be able to offer a day-care place to all parents who need one for their under-threes. Four new day-care centres were built and six existing ones were extended or converted. For a sounder basis to the total investment volume of EUR 10.4 million, the town received long-term loans at favourable interest rates from KfW under the “IKK – Day-Care Expansion” and “IKK – Investment Loans for Municipalities” programmes, totalling EUR 8.2 million. With a view to demographic change and work-life balance, such investment gives the town an advantage not to be underestimated.



(from left to right) Andrea Hufermann (day-care centre manager), Alfred Faßbender (city treasurer), Maria Pfordt (mayor), Klaus-Herrmann Rössler (city official responsible for youth and social affairs)

Volume of domestic promotional loans
(EUR in billions)¹⁾



¹⁾ Without securitisation

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SMEs mobilise

It is the SMEs with a lot of energy, inventive spirit and commitment – the “hidden champions” – that make the German economy successful. One example is the relatively new Paravan GmbH, which employs visionary technologies to provide physically disabled people with mobility, which in turn gives them more independence and normality. The global market leader of customised vehicles for the physically disabled continues to develop further innovations. KfW supports the company in developing new types of operation and control elements with an “ERP Innovation Programme” loan.



Roland Arnold (CEO of PARAVAN GmbH) with Janis McDavid

Long-term promotional offerings for SMEs

Demands are made on KfW not only in climate and environmental protection; its core responsibilities also include SME support above all. Mittelstandsbank committed EUR 22.6 billion for start-ups and SMEs in 2013. Although the SME economy is looking ahead with increasing optimism, companies' demand for financing remained modest. New lending business to companies and the self-employed saw an overall decline in Germany over the course of the year in view of companies' slow investment activity. Thus the year-on-year increase in demand for the “KfW Entrepreneur Loan” and “ERP Start-Up Loan” confirms all the more that KfW is well positioned with its promotional products even in the current financial and economic environment and provides appropriate long-term promotional offerings.

The innovative strength of companies plays an important role in German SME competitiveness. The “ERP Innovation Programme” with a constant promotional volume of almost EUR 1 billion is the anchor of KfW financing. In addition, KfW has created new promotional opportunities to finance innovations. KfW rounds off its promotional offering with the “Private Equity for Growth, Innovation and Succession” programme, a new equity finance product available to established small and medium-sized companies.

KfW has also assumed responsibility for promoting SMEs at European level. At the Federal Government's initiative, KfW granted two global loans totalling EUR 1 billion to the Spanish promotional Bank Instituto de Crédito Oficial (ICO) in July and December 2013. These funds are

intended to eliminate financing bottlenecks that arose for SMEs in Spain during the euro crisis. These loans help to maintain and create jobs and trainee positions.

Quick help to eliminate flood damage

KfW reacted very quickly and unbureaucratically last year to the consequences of the one-hundred-year floods in the south and east of Germany. Just days after the floods, KfW unveiled a package of immediate measures to remedy flood damage, containing a new commitment volume of EUR 100 million and relief on repayment of existing loans. As part of the “Flood Action Plan” created for one year, KfW offers companies, private households and municipalities loans at particularly low interest rates.

Actively shaping demographic change – for a liveable future

KfW is focusing its promotional activity on important megatrends, one of which is demographic change.

With a shrinking population, economic growth and prosperity can only be maintained with higher productivity.

For some years now, KfW has been focusing its promotional activity more strongly on important megatrends – central economic and social challenges which Germany has to face in the long term. One such megatrend is the demographic change that is placing multi-faceted demands on the economy and society. KfW supports companies, private individuals and municipalities with its numerous promotional programmes in accepting these challenges and finding long-term solutions to the problems an aging society presents.

By 2030, the German population is forecast to decrease by around 5 million people, to 77 million. The number of pensioners will increase by around one third. The associated impacts will be many. Older people have specific needs. Corresponding adjustments need to be made to infrastructure to ensure their participation in social life. Moreover, the workforce potential will decline, which means it will be more difficult to ensure long-term economic growth and prosperity in Germany. Meeting the needs of increasing numbers of older people at a high level with a smaller workforce can only work if productivity increases. To sustain growth, the existing potential of the active working population must be better utilised. A well-trained workforce is also necessary to increase productivity through innovation. Important factors in achieving this goal include, for example, enhanced education and further training, and improved work-life balance.

KfW assumes its social responsibility and promotes measures that address the problem from a variety of angles and meet the challenges of demographic change for private households, compa-

nies and municipal infrastructure. From financing education, senior-friendly residential buildings and home ownership as a pillar for old-age provision to improving infrastructure, for example day-care centres and retirement homes, KfW offers a wide range of promotional programmes to respond to demographic change.

Self-determined living and mobility for all generations

KfW still sees a great need to create senior-friendly homes. The quality of life of older people is significantly improved if they can remain in their own homes. Moreover, studies show a high savings potential for social insurance providers when older people continue to live at home. For some years now, KfW has been financing investments to improve accessibility in homes via its “Senior-friendly Conversion Programme” to enable self-determined, independent living and mobility for all generations. This increases comfort and property values at the same time. This programme experienced particularly positive development in 2013. With at least 7,500 loans granted totalling more than EUR 400 million, the promotional volume has more than doubled since the previous year.

Improving accessibility also plays an important role in public spaces. The demographic change presents many cities and municipalities with a special challenge: to improve accessibility in public infrastructure, municipalities, municipal enterprises and social institutions will have to invest around EUR 53 billion by 2030, according to a study by the German Institute of Urban Affairs (Difu).

KfW offers cities and municipalities, municipal enterprises and social organisations special investment loans enabling

them to finance investments at favourable conditions. The “IKK – Accessible City” and the “IKU – Accessible City” programmes have taken a targeted approach to supporting accessibility since 2012. These offers were very popular in 2013.

KfW attaches importance to a regular exchange with experts and partners. Together with the Federal Ministry of Transport, Building and Urban Development, as well as real estate and craftsmen associations, KfW held a series of events to discuss aspects of demographic change in the real estate sector and possible solutions.

Planning for tomorrow, today

In view of demographic development, young people must plan their pensions on a broader foundation containing several pillars. Supporting large sections of the population in achieving home ownership is thus an important component in assuming private responsibility for asset creation. Precisely this is the objective of the “KfW Home Ownership Programme” that has existed for some years now. In 2013, construction or acquisition of own homes was supported with more than 94,000 commitments. This financing also benefits those who form a housing association or join an existing one. Young people frequently integrate accessibility measures into their construction and renovation plans right from the start. These are not only future-oriented but increase property value at the same time.

The Federal Government has clearly shown that challenges of demographic change start with the very young in its ten-point “Day-care 2013” plan. A broad day-care offering helps families to better achieve a work-life balance. It also promotes early childhood development. Since 1 Aug. 2013,

parents have a legal right to day-care for children under three. In order for municipalities to fulfil this right, KfW supported the ten-point plan in 2013 with the “IKK/IKU – Day-Care Expansion” promotional programmes approved by the Federal Government. The programmes which were initially set up to run for three years were in such demand that funds, although topped up, were exhausted in 2013.

Lifelong learning

The fear is frequently voiced in public discussion that the declining number of young people could burden economic development. Further improved academic and professional qualification can counteract this tendency. For example, many companies already complain about a shortage of trained staff. From early childhood to tertiary education, stronger education efforts are thus necessary to safeguard Germany’s competitiveness. With its promotional offering in the area of education, KfW finances tertiary studies and continuing professional development, thus making a valuable contribution: no education plans should be left unrealised due to lack of funds.

KfW provided new impetus in 2013, particularly in the lifelong learning aspect, further developing the “KfW Student Loan” programme in line with academic requirements and student needs. The commitment volume of this flexible product was nearly 25% higher in 2013 than in 2012.

Ensure competitiveness

Demographic development can already be seen in the structure of Germany’s self-employed. The average age of self-employed individuals is rising, with the number of those under 40 having declined by 35% since 1995. And at the

KfW’s promotional offering for expanding day-care centres was in very high demand.

It is important to promote start-ups and company succession to safeguard their existence and the jobs they create.

same time fewer people are opting for self-employment. This makes it that much more important to support start-ups and company succession to ensure their existence and the jobs they create in Germany. KfW supports SMEs in finding successors through its “nexxt-change” succession exchange platform that it operates together with the German Federal Ministry of Economics and Technology (BMWi) and other competent partners.

KfW helps people to set up a new company or take over an existing one through its SME and start-up financing programmes. Around one third of the commitment volume of our start-up promotion goes to company succession. Borrowers increasingly include older people who wish to be successful again after many years’ professional experience by starting their own company. Starting their own business is also an important step for many entrepreneurs from immigrant families as this integrates them even better into German economic and social life.

KfW places a particular focus on supporting innovative companies. They acceler-

ate technical progress, drive structural change and safeguard Germany’s competitiveness to a large extent. However, it is particularly difficult to find appropriate financing for innovative projects because the chances of success are generally difficult to assess. So it is all the more important for entrepreneurs and companies with innovative ideas to obtain a variety of government support through low-interest loans, relieving banks of some risks, and offering private equity. KfW has a wide range of financing products available – both debt and equity – to finance innovations.

Finding solutions to the big challenges is the responsibility of society in general as well as of each individual. KfW’s promotional activities help to mobilise and support the innovative potential of many people and companies. This is a great opportunity to foster growth and to improve quality of life in the medium term for today’s generation and those yet to come.

Efficient and modern

In the 65 years of KfW's existence, customers and their needs have changed – but KfW's core responsibilities have remained unchanged over the decades: KfW accompanies structural change and supports future-oriented economic and social developments. KfW is continuously seeking new means of addressing the changing needs of clients and financing partners and also of optimally structuring its promotional mandate. KfW launched a multi-year modernisation process in 2012, the objective of which is to be an efficient and customer-oriented promotional bank that moves with the times and is well positioned for the future.

Higher demands require permanent change

KfW generally commits around half a million promotional loans and grants per year, many of which are quite small amounts. The business is thus broken down into many individual transactions. Total volume has almost doubled in the last ten years. These figures alone suggest that the efficiency of existing processes be assessed so that KfW can continue to achieve its promotional targets in the future as well. KfW has to consider that it does not issue its loans directly but via financing partners following the on-lending principle, so it must also abide by their standards. Continuous automatic data processing and thus standardisation and digitalisation of products and processes have become increasingly important, particularly for banks transacting similarly high numbers and volumes of loans. This is accompanied by bank clients' increasing attraction to the Internet.

A permanent adjustment and modernisation process is necessary to address all interests of the parties in the triangular relationship between clients, financing partners and KfW. This is achieved pri-

marily through a greater customer focus, increased efficiency and more professionalism, as well as a strategic focus on the major challenges: climate and environmental protection, demographic change, globalisation and technical progress. The main objective of the modernisation process is to enable flexibility with regard to changes in overall conditions. This process requires ideas and the courage to forge new paths as well as investment in technologies that place communication on a new footing.

More customer focus

KfW launched a comprehensive multi-year programme in 2012, aimed at modernisation and customer orientation. It began this journey by addressing the customer's point of view. Customers are, fortunately, extremely satisfied with KfW products; however, access to promotional loans has not always been easy. KfW is not known well enough, some product information is difficult to understand, and the application processes are complex. In response to these issues, KfW has started a modernisation process. The key elements are more comprehensive, standardised information, particularly on the Internet, improved external communication as well as more efficient on-lending and processing systems.

Some steps were taken in 2013 to pave the way for the modernisation process. Since the summer, KfW has used widespread TV advertisements to present potential customers its offering for energy-efficient rehabilitation and start-up companies. A completely revised website has been available since April 2013 to those who would like more detailed information. The site relies on fewer clicks to intuitively lead visitors to the appropriate products. Customers receive straightforward and comprehensive information enabling them to more easily recognise which KfW product fits their plans.

KfW products are well received by customers – now awareness of their existence and features is to be increased even more.

In this way customers can ask their bank specifically for financing that includes KfW loans. Complex products will also be made more accessible to customers by presenting them using examples, graphics, and tools such as a financing eligibility calculator.

On-lending Online 2.0

In order to make the step from Internet to a branch office as smooth and straightforward as possible, it has been possible since September to request a consultation appointment with a financing partner directly on the KfW website. The online request for an appointment is the first element of the new promotional platform Bank On-lending Online 2.0 (BDO 2.0). Development of the platform has been underway since 2012 in cooperation with twelve pilot partners which represent the three major pillars of the banking sector. As the next step, KfW plans to enable binding confirmation during the online consultation of financing eligibility for the programmes with particular high demand, “Energy-Efficient Construction”, “Energy-Efficient Refurbishment” and the “KfW Home Ownership” programme. The energy efficiency assessment is integrated into the process via a link in the loan application to the result of the energy consultant’s assessment using the existing KfW online assessment tool. The aim in future is for the customer advisor to be able to submit an online loan application to KfW in the presence of the customer, and receive KfW’s immediate approval, if applicable via his central institution, which he can then pass on directly to the customer. In this manner, the customer and customer advisor are quickly assured planning security for financing the project.

The automated process will take the same amount of time a customer needs to drink a cup of coffee, which is why we refer to it as the “cappuccino effect”. The new functions are to be gradually extended to other products and other financing partners in addition to the pilot partners. This process ensures the future viability of the bank’s on-lending promotional loans in the current age of increasing pressure to ensure efficiency and of customers’ liking for online options.

The online suitability of products is the prerequisite to a well-functioning Internet-based promotional platform. This means structuring them more simply and transparently and standardising further where possible. Moreover, the internal loan processing system has to be adjusted to meet the needs of an automated online assessment. Further progress in the necessary adjustments was made in 2013.

Direct response

Small details often make a difference in how KfW is perceived by customers and financing partners. The difference between an anonymous, distant institution and a promotional bank that understands the needs of customers and financing partners is reflected even in the form communication takes. To focus more on customers and adapt to changing reading habits, KfW introduced external communication measures in 2013: circulars, newsletters and letters are to adopt a more uniform language style, and be more succinct and comprehensible.

Since September, customers have been able to arrange an appointment with a financing partner directly on the KfW website.

In future it will be possible to receive immediate KfW approval of an online loan application.

The promotional offering for companies

KfW supports Germany's economy with its financing and advisory offering. SMEs, start-ups and the self-employed can choose from a diverse offering focussed on start-ups and general corporate financing, innovation, and climate and environmental protection.

Promotional volume overview

At EUR 22.6 billion, the commitment volume in 2013 was below that of the previous year, of EUR 24.1 billion.

The commitment volume in the key promotional area start-ups and general corporate financing of EUR 11.3 billion increased slightly year-on-year from EUR 11.1 billion, against the general market trend and buoyed by high demand for promotional loans in the "KfW Entrepreneur Loan" and "ERP Start-Up Loan" programmes.

The key promotional area innovation financing also saw the commitment volume rise slightly to over EUR 1 billion.

The commitment volume of corporate environmental funding, on the other hand, declined to EUR 10.3 billion (2012: EUR 12.0 billion). Two opposing trends were evident: due to a change in conditions of the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz), the promotional volume in the "Renewable Energies" programme family fell from EUR 7.9 billion in 2012 to EUR 4.7 billion in 2013. In contrast, commitments in the "KfW Energy Efficiency Programme" rose significantly from EUR 3.5 billion in 2012 to EUR 4.7 billion in 2013. This reflects the fact that KfW promotion places the same importance on saving energy as on generating renewable energies. Overall, almost half of commercial environmental protection financing went to climate and environmental protection.

Start-ups and general corporate financing

The broadly applicable "KfW Entrepreneur Loan" remained the main pillar of KfW SME financing in 2013. More than 34,000 "KfW Entrepreneur Loans" were granted last year alone, totalling almost EUR 8.0 billion. This exceeded the extraordinarily high levels seen in the previous year by 1,000 commitments or EUR 0.2 billion. Demand rose to EUR 2.7 billion in start-up financing as well. The favourable conditions and continuing optimisation of promotional products had a positive overall effect. For example, the promotional eligibility of commercial cooperatives was simplified in 2013 and the application of the risk-adjusted interest system made more flexible. Moreover, KfW offered immediate, unbureaucratic and very low-interest funding to victims of the flood disaster in early summer 2013, through quick and easy adjustments to its promotional products under the "Flood Action Plan".

Equity for companies

In addition to pure lending, KfW also offers companies financing instruments in the form of equity investments. One of these – the "German SME equity fund" – was initiated in 2010 together with Commerzbank. This fund enables a flexible and entrepreneur-friendly financing offering to larger SMEs: provision of real equity in the form of minority interests ensures a high degree of entrepreneurial autonomy. The aim of the fund is to finance long-term growth plans that make a major contribution to securing existing jobs and creating new ones in Germany.

KfW added a new module to its later-stage equity financing offering in 2013, the "Private Equity for Growth, Innovation and Succession" programme. This programme is aimed at established SMEs which need risk-bearing capital to realise demanding

Commitments of the "KfW Entrepreneur Loan" exceeded the high levels seen in the previous year.

KfW is also offering equity financing to SMEs.

innovation projects, implement larger growth projects or arrange corporate succession.

For social enterprises, it is often particularly difficult to find suitable financing. Provision of external equity is often the appropriate solution for them. To this end, KfW has offered a pilot-phase programme to finance social enterprises on behalf of the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth for two years now. Together with partner investors, KfW provides equity to cover the financing needs of companies that contribute to solving social problems with innovative ideas. For instance, KfW is participating in an enterprise that employs the logical/analytical skills of people with some degree of autism and uses them as consultants in IT, software testing and quality assurance.

Supporting corporate succession

Supporting corporate succession plays a special role in SME financing. To this end, KfW supports start-ups with a wide range of promotional options.

For example, the “ERP Start-Up Loan” programme offers particularly favourable interest rates and can be used by entrepreneurs, business successors and new companies in many different ways. Against the trend of an overall decline in demand for commercial financing and despite a further decline in start-up momentum in Germany, the commitment volume in the “StartGeld” and “Universal” modules rose in 2013 to a total of EUR 2.6 billion (2012: EUR 2.3 billion).

The “ERP Start-Up Loan – StartGeld” module is particularly suitable for smaller start-ups. In this promotional product, KfW assumes 80% of the credit risk with the help of a guarantee from the European Investment Fund, provided under the European Union’s Competitiveness and Innovation Framework Programme (CIP). Many entrepreneurs receive their first access to loan financing through this product. The product’s volume of just under EUR 290 million matched that of the previous year.

The “ERP Capital for Start-Ups” promotional product grants uncollateralised, subordinated loans. These are frequently used for business successor arrangements and thus make an important contribution to generation succession at companies. The issue of business succession is of particular relevance with a view to demographic development and the high number of SMEs in Germany. The “ERP Capital for Start-Ups” programme supported start-ups and successors with subordinated loans totalling more than EUR 140 million in 2013. This also matched the previous year’s level.

Film financing

As part of the cultural and creative industries, the German film industry has great innovative and commercial potential. “KfW Film Financing” is aimed at German film production companies, but also finances productions by foreign film companies in Germany. This programme provides direct loans as pre-financing of contractually agreed funds. KfW thus supports financing options for the German film industry.

Venture capital and loans for innovations

Innovation capacity in Germany’s companies is highly important in achieving the goal of a permanent advantage in global competition. With its wide range of promotional programmes, KfW again made a decisive contribution in 2013 to enabling new and established enterprises to realise their innovation projects.

The “High-Tech Start-Up Fund II” is the most important source of venture capital for those very new “seed-stage” technology companies (up to one year old). After the Federal Ministry for Economics and Technology, KfW is the largest fund investor, having contributed EUR 40 million. The aim is to finance the start-ups’ technology until it reaches at least a prototype stage (proof of concept) or even until market launch (proof of market). Many high-tech start-ups were supported in 2013.

As part of the “ERP Start Fund”, KfW invests pari passu together with private lead investors, i.e. making an equal contribution under the same terms, in young technology companies that have already completed their first stages of development – for up to ten years after starting up. In addition to venture capital funds and private equity firms, business angels, in particular, are also lead investors. Moreover, the “ERP Start Fund” is available as co-investor for business angel investments that have already received co-financing via the “European Angels Fund” (EAF) managed by the European Investment Fund (EIF). But also investments by private individuals who have received the “Venture Capital Investment Grant” may be co-financed through the “ERP Start Fund” with the investment grant offset. Progress was made in 2013 with participation in more than 130 financing rounds in the further expansion of many young technology companies. Venture capital of EUR 45 million from KfW alone was committed with a focus on smaller individual amounts. Overall, KfW and lead investors provided venture capital of at least EUR 90 million to enterprises (KfW commitments 2012: EUR 58 million without lead investors).

Companies are constantly under competitive pressure and are forced to improve their products and processes on an ongoing basis. With the “ERP Innovation Programme”, KfW offers long-term financing for new and further development of products as well as for the optimisation of production processes at established companies with annual sales of up to EUR 500 million. Funds are provided through a financing package consisting of a traditional loan and a subordinated loan. KfW assumes the full risk for the subordinated tranche without demanding collateral from companies. By bearing the risk burden, KfW helps banks to also provide financing to companies with high-risk innovative projects. This is making the SME landscape more competitive and thus ready for the future. The 2013 commitment volume amounted to almost EUR 1 billion, slightly exceeding the previous year’s level.

Supportive promotion of renewable energies

KfW is supporting the German Federal Government's implementation of the energy turnaround with a variety of promotional programmes. Promotion of renewable energy systems is of particular importance.

The promotional volume of EUR 7.9 billion in 2012 declined to EUR 4.9 billion in 2013 (including "Offshore Wind Energy" in the amount of EUR 0.2 billion).

The most important promotional instrument is the "Renewable Energies – Standard" programme. Through this programme, KfW supports the Federal Government's objectives of expanding electricity generation from renewable energy sources. KfW granted low-interest loans of EUR 4.4 billion for investments, for example, in wind and solar farms, and hydropower plants (2012: EUR 7.6 billion). The year-on-year decline was accompanied by the targeted reduction in photovoltaic system expansions. Thus the commitment volume for these plants in 2013 amounted to only EUR 1 billion (2012: EUR 4.2 billion). In contrast, funding of onshore wind farms rose from EUR 3.0 billion in 2012 to EUR 3.2 billion in 2013. KfW has funded the use of stationary battery storage systems in connection with photovoltaic systems by offering favourable interest-rate loans via its "Renewable Energies – Storage" programme since May 2013. The investment will also be financed by a repayment bonus from funds provided by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. The aim is to support market and technology development in the battery storage systems area for better integration of small to medium-sized photovoltaic systems into the power grid. The programme is off to a good start. A total of 2,730 systems have already received support in the amount of EUR 45 million.

The "KfW Renewable Energies – Premium" programme is part of the market incentive programme of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. With low interest

loans and repayment bonuses from federal government funds, this promotes facilities for the generation, distribution and storage of heat from renewable energy sources. Promotion under this programme remained focused on heating networks in 2013, followed by biomass plants for heat generation. The commitment volume amounted to EUR 0.3 billion (2012: EUR 0.4 billion).

The KfW "Offshore Wind Energy" programme provides high-volume loans through banking syndicates for the construction of offshore wind farms. After delays due to problems in connecting to the power grid in 2012, financing totalling around EUR 0.2 billion was committed in financial year 2013.

Promotional record in the "KfW Energy Efficiency Programme"

Improvement in energy efficiency is and will remain a cornerstone of the energy turnaround. The energy efficiency potential of commercial enterprises, however, is far from exhausted. The "KfW Energy Efficiency" programme supports commercial enterprises in financing their investments in their own energy efficiency through long-term loans at favourable interest rates. Promotion of commercial energy efficiency measures was a focal area in the promotion of climate and energy protection for companies in 2013 as well. At EUR 4.7 billion, the promotional volume significantly exceeded that of the previous year (2012: EUR 3.5 billion). The focus was on new buildings with low energy consumption and on plant retrofitting, including highly efficient interdisciplinary technologies. This programme is part of the joint initiative of KfW and the Federal Ministry of Economics and Technology, "Energy Efficiency in SMEs" founded to particularly promote SMEs that invest in energy efficiency measures.

"Energy Consulting for SMEs" identifies energy saving potential

The "Energy Consulting for SMEs" promotional programme was launched in 2012 as an additional programme in the "Energy Efficiency in SMEs" initiative. At least 4,900 SMEs benefitted from KfW grants financed by the Federal Ministry of Eco-

nomics and Technology for professional energy efficiency consulting – an increase of 1,500 over the previous year. Qualified energy efficiency consulting by an independent energy advisor focuses on identifying energy saving potential and demonstrating possible action to increase the company's energy efficiency in a targeted manner and thus lower costs.

General environmental protection

The "KfW Environmental Protection Programme" supports general corporate environmental protection measures with long-term loans at a low interest rate. These include, for example, resource and material efficiency projects, pollution control measures, and the reduction and prevention of odour emissions, noise and vibration.

The promotional volume amounted to around EUR 0.5 billion in 2013 and thus around the prior-year level. Promotion focused on resource efficiency and noise control as well as low-emission vehicles.

"KfW Energy Turnaround Financing Initiative"

The "KfW Energy Turnaround Financing Initiative" has been a component of Mittelstandsbank's promotion of commercial climate and environmental protection since the beginning of 2012. KfW provides funds under syndicated financing at the invitation of commercial banks for larger-scale corporate plans in the areas of energy efficiency, innovation and renewable energies. In 2013, a loan volume of nearly EUR 0.2 billion was committed to support the energy turnaround (2012: EUR 65 million).

Good advice helps corporate success

In addition to its financing offerings, KfW also promotes advisory services for start-ups and SMEs. "Start-up coaching in Germany" is a joint initiative between the Federal Ministry of Economics and Technology, the Federal Ministry of Labour and Social Affairs and KfW, and is financed from the European Social Fund. The promotion aims to secure the long-term position of start-ups in Germany and palpably improve their prospects of success. As a result of the changed labour market

conditions and legal framework, the number of commitments fell on the previous year from around 21,000 to 19,500. Around 50% of commitments went to the “Start-up Coaching for Start-ups following Unemployment” programme, which expired on 31 Dec. 2013.

The “Round Table” and “Turnaround Consulting” promotional programmes offer grants towards payment of consulting costs to SMEs in need of external qualified advice due to a difficult economic situation. The grants towards the consultancy costs for the “Round Table” are

financed from KfW funds, and for “Turnaround Consulting” from the European Social Fund. In 2013, around 2,100 “Round Table” and 1,800 “Turnaround Consulting” grants were committed.

Commitments by business sector Mittelstandsbank in 2013, by federal state^{*)}



Federal state	Number	2013 volume (EUR in millions)
Baden-Württemberg	21,436	4,081
Bavaria	20,431	3,888
North Rhine-Westphalia	17,089	3,611
Lower Saxony	7,208	1,953
Hesse	4,815	1,285
Rhineland-Palatinate	3,988	1,166
Schleswig-Holstein	2,750	946
Brandenburg	1,512	807
Mecklenburg-Western Pomerania	1,074	655
Saxony	2,114	574
Thuringia	1,287	537
Saxony-Anhalt	1,162	523
Bremen	501	362
Berlin	1,593	343
Hamburg	1,169	309
Saarland	941	257
Not indicated	5	11
Abroad	180	1,238

You can access and analyse KfW's promotional statistics online at www.kfw.de/foerderreport.

^{*)} Excluding consultancy grants

Promotional offering for private customers

KfW's wide promotional offering supports private individuals in the area of residential property investment, whether for modernisation, energy-efficient construction or purchasing their own home. It also promotes traineeships and continuing professional development with favourable financing offers.

Promotional volume overview

KfW provided a total of EUR 18.2 billion in promotional funding to private customers in 2013, which was a further increase on the previous year. Improvements to the process, such as the web-based check for KfW Efficiency House criteria, have made promotion even more attractive. There was also an increase in demand for promotional loans for investment in education. This was primarily due to a comprehensive expansion of the "KfW Student Loan" into a promotional offering for lifelong learning.

The commitment volume in the homes area was almost EUR 15.6 billion, another year-on-year increase of around 3%. The "Energy-Efficient Construction" programme in particular was in high demand, with commitments rising to EUR 6.3 billion. Every second newly built home was promoted with the KfW Efficiency House standard. The loans and grants offered in the "Energy-Efficient Refurbishment" programme reached a volume of over EUR 4.1 billion and over 116,000 individual commitments. A total of 400,000 homes were refurbished with energy efficient measures or newly constructed thanks to KfW promotion. This alone served to reduce annual carbon emissions by approximately 820,000 tonnes in 2013. The programmes implemented on

behalf of the Federal Ministry of Transport, Building and Urban Affairs thus made a significant contribution to the government's carbon emission reduction targets.

The construction boom evident in 2013 also led to high demand for the extensive "KfW Home Ownership Programme", with KfW committing EUR 4.5 billion. Demand for the "Senior-friendly Conversion" programme was particularly pleasing; this programme funds investment in accessibility improvements in existing homes.

The promotional volume has increased to EUR 408 million, thus more than doubling year-on-year. With over 7,500 commitments, support was provided to those builders that invest in order to be able to enjoy their own homes in their old age without losing comfort or quality of life.

Energy-efficient construction and refurbishment

Promotion for energy-efficient construction and refurbishment remained the most important component of the promotional programmes for housing in 2013. KfW supports investors, on behalf of the Federal Government, with the refurbishment or construction of energy-efficient homes for own use or rent with the "Energy-Efficient Construction" and "Energy-Efficient Refurbishment" programmes. The requirement is that projects exceed the minimum standards prescribed by law. The KfW Efficiency House standard which KfW developed serves as a benchmark for this. It is established on the market and has become a uniform national standard for energy efficiency.

The "Energy-Efficient Rehabilitation" programme became even more attractive in

2013. The Federal Government resolved at the beginning of the year to make an additional EUR 300 million of federal funds available every year until 2020, so private builders now benefit from higher investment subsidies in the "Energy-Efficient Refurbishment – Investment Grant" programme version.

The repayment bonuses in the loan for KfW Efficiency House 70 and 55 were also increased. Attractive grants and favourable interest rates facilitate the decision-making process for home owners planning refurbishment work, whether they need a loan or not.

KfW also launched its own lending programme in the spring to promote heating using renewable energy sources. Low-interest loans of up to EUR 50,000 finance the installation of solar thermal systems, biomass systems and heat pumps. The improvements and expansions to the programme make a significant contribution to the success of the energy turnaround, as they can motivate more people to invest in energy efficiency measures.

Quality ensured by qualified energy consultants

KfW has created a holistic quality concept in order to ensure both that refurbishment work is of sufficient quality and that the right amount of funds is employed. Energy consultants with well-documented experience and qualifications represent an important component of quality assurance. Customers find suitable consultants via a central expert database online. If customers also commission a qualified energy consultant to monitor construction, they receive an attractive subsidy from KfW. It is also vital that consultants en-

gage in continuing professional development and are always up to date with new information. For this reason, KfW has been offering online training courses for energy consultants, architects and civil engineers since the summer of 2013.

It also expanded the on-site checks for the “Energy-Efficient Construction” and “Energy-Efficient Refurbishment” programmes in 2013 to optimise its offering.

Loan and grant projects are selected at random and checked by qualified experts. This ensures the energy efficiency of the promoted projects and prevents misuse of funding.

“Senior-friendly Conversion”

A growing number of property owners think early about making their property more accessible with a view to the future. This also increases the value of their property and addresses an important future-relevant issue – demographic change. KfW promotes related investments through its “Senior-friendly Conversion” programme, financed with its own funds since 2012. The commitment volume doubled in 2013. The removal of barriers improves the comfort and convenience of the property. This means that all age groups can benefit from the programme. It not only enables older people to remain in their familiar environment as long as possible, but also benefits the disabled and people with restricted mobility, as well as families with children.

KfW Award 2013

The “Construction and housing” KfW award has a history of more than ten years now. It was also presented in 2013. The focus this time was on private builders and joint building ventures that made creative and individual use of unused space and empty buildings in central locations, while keeping the former use or tradition of the area in mind. The winners were chosen from over 160 entrants by a jury of renowned experts, and received prize money totalling EUR 31,500. They were inspirational, reconciling their unconventional but exemplary ideas with the latest energy-efficiency and accessibility requirements.

Education finance

KfW has long been an effective and indispensable partner to the Federal Government with its education financing offering. In 2013 it made a total of more than 120,000 commitments for EUR 2.6 billion, a 13 % increase year-on-year. There was a particularly notable rise in the number of individual commitments for the “KfW Student Loan” – by around 34% to a new record of over 33,000, totalling EUR 1.4 billion. Promotion via the “Master BAföG” programme also remained at a very high level, with more than 60,000 commitments totalling around EUR 300 million, which equated to an increase of at least 10%.

The promotional programmes in the education finance area support the principle of lifelong learning, whether academic or vocational training or further development. In addition to the dedicated programme for students (“KfW Student Loan”), KfW also supports young people with vocational training via federal programmes such as the “Education Loan”, the “BAföG Bank Loan” downstream of the governmental BAföG, and the federal “AFBG – Master BAföG” programme. So students in advanced stages of their studies or training can obtain a low-interest loan. And those training for vocations in commerce, industry or the skilled craft sector, for a technical occupation or as self-employed professionals, or in home economics or agriculture can obtain funding for their living costs as well as the training and examination fees.

Expansion of “KfW Student Loan”

KfW has been funding students’ living expenses with the “KfW Student Loan” for seven years now. They receive a loan of up to EUR 650 monthly, regardless of their parents’ income. This loan is the catalyst for many to even begin studying. KfW made major improvements to its promotional offering under the “KfW Student Loan” as of the summer semester of 2013, and made targeted adjustments in line with the extensive options available in academic study as well as students’ needs. For example, advanced or supplementary studies, a second degree or doctoral studies can now also be funded for

the first time. In addition, all courses of study can now be financed flexibly via the “KfW Student Loan”, whether they are full or part-time. The age limit has been raised considerably, to 44 years. This benefits primarily those returning to tertiary education from professional life and really engaging in lifelong learning. The success of these measures is evident in the constantly rising demand for this very flexible product.

**Commitments in the promotional areas of housing and infrastructure by the business sector
Kommunal- und Privatkundenbank/Kreditinstitute in 2013, by federal state**



Federal state	Number	2013 volume (EUR in millions)
North Rhine-Westphalia	67,350	4,170
Bavaria	56,900	3,336
Baden-Württemberg	50,031	3,069
Hesse	25,362	1,457
Lower Saxony	35,867	1,923
Schleswig-Holstein	17,667	1,064
Rhineland-Palatinate	17,215	796
Berlin	6,115	725
Hamburg	5,659	700
Saxony	7,893	649
Brandenburg	6,548	508
Thuringia	4,198	479
Saxony-Anhalt	3,856	370
Mecklenburg-Western Pomerania	3,707	314
Bremen	2,243	247
Saarland	4,075	154
Not indicated	8	268

You can access and analyse KfW's promotional statistics online at www.kfw.de/foerderreport.

Domestic promotion has been presented via the two business sectors Mittelstandsbank and Kommunal- und Privatkundenbank/Kreditinstitute since April 2013. The promotional areas of housing investment,

education and social development, infrastructure, general refinancing of the promotional institutions of the federal states/global loans and individual financing banks are accordingly reported together.

Volume of promotional financing of business sector Mittelstandsbank as of 31 December 2013

Programme	Promotional business volume		Purpose
	2013 EUR in millions	2012 EUR in millions	
Total Mittelstandsbank	22,640	24,070	
Start-ups and general corporate financing	11,337	11,067	
KfW Entrepreneur Loan	7,982	7,811	Investments of SMEs
ERP Capital for Start-Ups	144	138	Start-ups and young companies, company succession through subordinated loans
ERP Start-Up Loan	2,599	1,961	Start-ups and young companies, company succession
KfW Start-Up Loan ¹⁾	–	373	
ERP Regional Promotion Programme	343	426	Investments to improve regional economic structure
ERP Participation Programme	67	69	Private equity for small and medium-sized enterprises
Other promotional programmes	107	194	
Consultancy grants	94	95	
Innovation	1,023	960	
ERP Innovation Programme	975	879	Research and development measures, market launches with debt and subordinated capital
ERP Start Fund	45	58	Young innovative technology companies through private equity
Special financing R&D	3	22	Development costs in aviation
Environment	10,280	12,043	
	490	494	Environmental protection measures
KfW Energy Efficiency Programme	4,693	3,519	Energy efficiency measures
KfW Renewable Energies Programme	4,681	7,937	Investment in renewable energies
KfW Offshore Wind Energy Programme	194	–	Offshore wind farms
KfW Energy Turnaround Financing Initiative	178	65	High-volume investments in renewable energy sources and energy efficiency measures
Grant for acquisition of low-emission, heavy commercial vehicles	22	19	Acquisition of commercial vehicles weighing twelve tonnes or more
BMU Environmental Innovation Programme (grants)	21	10	Projects with demonstrative character in the area of environmental protection

Differences in the totals are due to rounding.

¹⁾ Old programme

**Volume of promotional financing of business sector Kommunal und Privatkundenbank/Kreditinstitute
as of 31 December 2013**

Programme	Promotional business volume		Purpose
	2013 EUR in millions	2012 EUR in millions	
Total Kommunal- und Privatkundenbank/ Kreditinstitute	28.911	29.291	
Housing investment	15.550	15.097	
Energy-efficient refurbishment and construction	10.368	9.886	Energy modernisation and energy-efficient construction of residential buildings
<i>Energy-Efficient Refurbishment</i>	4.103	4.246	
<i>Energy-Efficient Construction</i>	6.265	5.640	
Senior-friendly Conversion	408	202	Conversion of residential accommodations to improve accessibility
KfW Home Ownership Programme	4.514	4.879	Acquisition and construction of owner-occupied property
Housing Modernisation	–	10	Programme expired as of 31 Dec. 2011
LFI Promotional Refinancing	260	120	
Education and Social Development	2.625	2.331	
AFBG (Master BAföG)	296	267	Continuing professional development
BAföG government loans	798	786	
Education Loan	97	93	
BAföG bank loans	28	27	Academic study
KfW Student Loan	1.387	1.124	
Tuition fee loans	20	32	
Family caregiver leave loan	–	1	Family caregiver leave
Infrastructure	4.676	3.833	
Investment Loan for Municipalities	2.539	2.031	
<i>IKK – Investment Loans for Municipalities</i>	1.970	1.764	
<i>IKK – Urban Energy-Efficient Rehabilitation</i>	214	261	
<i>IKK – Municipal Energy Supply</i>	1	1	
<i>IKK – Accessible City</i>	15	5	
<i>IKK – Day-Care Expansion</i>	339	–	
Investment Loans for Municipal and Social Enterprises	2.081	1.663	Investment in the municipal and social infrastructure, special promotional programmes for municipal energy supply and urban energy-efficient rehabilitation, with promotional targets that meet the challenges of demographic change
<i>IKU – Investment Loans for Municipal and Social Enterprises</i>	1.716	1.597	
<i>IKU – Municipal Energy Supply</i>	63	10	
<i>IKU – Accessible City</i>	17	–	
<i>IKU – Day-Care Expansion</i>	210	–	
<i>IKU – Urban Energy-Efficient Rehabilitation</i>	76	56	
LFI Promotional Refinancing	8	140	
Financial guarantees	49	–	
LFI General Funding/Global Loans for Infrastructure	3.599	5.298	
General funding of the special credit institutions	3.599	5.298	Global loans to fund the promotional institutions of the federal states
Individual financing banks	2.460	2.731	
Olymp Refinancing of Export Loans	643	1.206	Refinancing of Export Loans Covered by Federal Guarantees
Structured products	115	950	
Global loans – leasing	400	300	Structured products and global loans to promote SMEs and environmental protection
Global loans Europe (EU mandate)	202	175	
Global loans Europe (other)	1.100	100	

Differences in the totals are due to rounding.

Promotion of public institutions

Many investments made by municipalities, municipal and social enterprises are funded by KfW. This support is extended to general investments in communities, through energy rehabilitation of entire neighbourhoods, to promotion of municipal social institutions for a family-friendly environment and accessible public facilities. KfW also supports municipalities and municipal institutions with investments to ensure energy supply and for conversion to renewable energies.

Promotional volume overview

Demand for loans from municipalities as well as municipal and social enterprises was at a high level in 2013. Overall, KfW promoted close to 4,300 projects with around EUR 4.7 billion. This corresponds to an increase of a good 23%. The commitment volume in the basic programmes for financing investments in municipal and social infrastructure stood at around EUR 3.7 billion, an increase of 10% year-on-year. In this way, KfW assisted cities and communities in creating a basic foundation for growth and prosperity at municipal level. Modernisation of school buildings and expansion of local public transport systems and energy-efficient municipal utilities, in addition to many other investments, provide an impetus for attractive communities.

Energy turnaround in municipalities

Promotion of municipal climate and environmental protection investments also saw positive development. Municipalities and municipal enterprises make an important contribution to the energy turnaround. A key component is "Urban Energy-Efficient Rehabilitation". KfW committed 570 loans with a total volume of EUR 282 million, plus a total of 123 grants of EUR 6.3 million for investment in energy-efficient supply for neighbourhoods, energy-efficient rehabilitation and energy-efficient street lighting under the "grants for integrated district plans and refurbishment managers" programme component. In this way, KfW helps cities and communities to find holistic solutions for energy-efficient neighbourhoods. Another important component is support for municipal energy suppliers. The aim of KfW promotion is to advance the development of high-performance storage technologies, intelligent network technologies and construction of flexible conventional power plants and expansion of distribution grids.

Municipalities and demographic change

In addition to the energy turnaround, demographic change is one of the big challenges that cities and communities will face in the future. KfW expanded its promotional offering in this area to enable municipalities to more easily manage the tasks associated with them, launching the "IKK – Accessible City" and "IKU – Accessible City" programmes in autumn 2012. Since the launch, low-interest funds from these programmes have been employed to promote almost 100 projects with just under EUR 40 million to reduce physical barriers in public buildings and modify municipal infrastructures.

In 2013, two new low-interest promotional programmes were launched in conjunction with the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth. KfW provided an initial lending volume of EUR 350 million for expansion of day-care centres in 2013-2015; this was supplemented by the Federal Ministry of Family Affairs in the form of interest-rate reductions. Demand for these programmes was so great that it was initially topped up to EUR 550 million. Despite this measure, the funds were completely exhausted by the end of the year.

Special financing for financing partners and special tasks

Besides the programme loans business, KfW also pursues its promotional goals with financing forms directed at financial market partners. These include global loans to promotional institutions of the federal states (LFIs) as well as to German and European financial partners. Structured products are another instrument. These products enable KfW to indirectly reach its promotional target groups and their projects.

Global loans to the promotional institutions of the federal states

For many years KfW has maintained a close and very successful cooperation with the promotional institutions of the federal states on the basis of global loans. Three products are available for collaboration with these promotional institutions.

Projects in municipal infrastructure, SMEs, housing and energy-efficient refurbishment of buildings are financed in a targeted manner and at low interest rates through programme-related global loans based on KfW promotional product terms. This involves bundling promotional support from KfW and LFIs in a practical manner. Customers thus benefit from a transparent promotional landscape and particularly favourable financing terms. Cooperation via programme-based global loans was also continued at a high level in 2013. The total pay-out volume amounted to EUR 8.8 billion.

An additional product is KfW's promotional refinancing. This refinancing offer supports promotional activities of federal states in the areas of climate and environmental protection and demographic change as well as activities with social objectives in which KfW does not offer any programme of its own. This new project became further established in 2013 with EUR 0.3 billion committed in the reporting year.

Moreover, KfW also offers LFIs general refinancing. These funds refinance promotional activities and initiatives that are specific to individual federal states and fall under KfW's legal area of responsibilities. The commitment volume of EUR 3.6 billion remained at a high though reduced level in 2013.

Individual financing banks

At the initiative of the German Federal Government, KfW supported Spain's SME sector in 2013 by granting two global loans totalling EUR 1 billion to the Spanish promotional bank ICO. ICO is passing on the lion's share of the funds to SMEs in Spain as low-interest rate loans via commercial banks; a portion of the global loan funds is additionally employed in ICO's equity finance area to bolster SME equity in Spain. Overcoming the financing and liquidity bottlenecks facing many SMEs plays an important role during the difficult adjustment process underway in Spain, as in other euro-area countries. Seven smaller individual contracts were also agreed in Europe. This is KfW's contribution to addressing Germany's responsibility to Europe. Furthermore, as part of promoting SMEs in Germany, global loans were issued for the purpose of refinancing leasing receivables. This resulted in a total volume of EUR 1.7 billion and thus an increase of EUR 1.1 billion year-on-year.

The commitment volume for structured products was EUR 0.1 billion in 2013, considerably below that of the previous year (EUR 1.0 billion). This development is the result of a one-time effect in the previous year consisting of a large-volume PROMISE securitisation transaction. The programme agreed by the Federal Ministry of Economics and Technology to refinance export loans covered by the Federal Government continued its positive development in many smaller transactions. At 22, the number of refinanced export loans scarcely changed compared with

KfW assumes responsibility for Europe and supports Spain's SME sector with two global loans.

the previous year; however the refinancing volume of EUR 0.6 billion lies significantly below that of 2012 (EUR 1.2 billion). This is largely due to a more relaxed refinancing situation at banks as well as the development of the economy, which was worse than expected in many countries.

Financial reunification: Tasks after the fall of the Berlin Wall

KfW is administering outstanding claims for the Federal Republic of Germany (particularly secured loan claims of banks and insurance companies compulsorily purchased after 1945, located in the former GDR states). The original outstanding claims volume of approximately EUR 3.3 billion has since been reduced to around EUR 6 million.

KfW is handling claims on behalf of the Federal Government against a number of other countries, resulting from intergovernmental agreements on the termination of foreign trade relations with the former GDR. KfW is also handling claims on behalf of the Federal Government against German exporters for reimbursement arising from amounts that were wrongly offset against transfer roubles. The amounts received in this regard are transferred to the Federal Government.

Compensatory Fund for Securities Trading Companies (EdW)

KfW administers the Compensatory Fund for Securities Trading Companies (EdW) under a mandate from the German Federal Government. The EdW is a Federal Government special fund without legal capacity that protects small-scale investors against potential loss in securities trading. To date, the EdW has processed around 33,900 loss advices under 19 compensation claims and paid out around EUR 281 million in investor compensation.

KfW's foundation business

On the basis of an agency agreement, the business of the Humanitarian Aid Foundation for Persons Infected with HIV through Blood Products has been conducted by KfW since 1995. For humanitarian and social reasons, the foundation pays a monthly pension to individuals who have been directly or indirectly infected with HIV (human immunodeficiency virus) through blood products or who have AIDS. In certain circumstances, the affected person's dependants may also receive payments. The foundation is funded by the Federal Government, the federal states, pharmaceutical companies and the German Red Cross.

KfW supported around 600 affected individuals from foundation funds in 2013 with monthly pension payments totalling around EUR 9.2 million.

Outstanding claims volume extensively reduced.

Actively approaching customers

KfW offers a broad and comprehensive range of promotional products. The main responsibility of Sales is making this offering available to KfW customers quickly and easily. KfW set major milestones in 2013 in providing even better information to its customers and granting funding via its financing partners more efficiently.

Website relaunch

The more comprehensively potential customers are informed and advised of promotional options, the more likely it is that they can meet promotional requirements and take advantage of the offering. For this reason, KfW relaunched its website in spring 2013, rendering its most important information medium much more user friendly and transparent. The new website received not only a new look but also a more easily navigable structure on the basis of innovative technology. KfW domestic promotion was embedded in the target group structure; the home page appeals directly to private customers, companies and public institutions. Simple, user-friendly navigation takes users quickly and intuitively to the desired information, which is individually prepared by means of new tools such as the product finder, the preliminary check and the grant calculator. Many examples and animated infographics render the content easy to understand and appealing as well as personal. This makes a good impression – an average of 1 million users visit the KfW website every month, a higher figure than before the website was updated.

Flagship campaigns with TV ads

KfW also further expanded its marketing activities to increase product awareness. These activities focused on two product campaigns for programmes in the central promotional focus areas: energy-efficient construction and refurbishment, and start-ups. Two TV advertising spots – one for each topic – constitute the core of these campaigns, which present success stories using specific examples of how customers benefit from KfW products and services. The content idea was also reiterated in additional marketing measures with recognisable motifs and statements. This resulted in uniform, integrated, cross-media advertising, which also included a wide range of online – as well as supporting offline – measures, besides the TV ads.

Moreover, a wide, balanced mix of measures continued to be employed to advertise SME financing products as well as those for financing municipal and social infrastructure, just as for the “Senior-friendly Conversion” programme and the “KfW Student Loan”. The measures predominantly featured search engine marketing and online display advertising. PR measures via target group-relevant media were also employed. For example, KfW continued the existing media collaboration with the highest-circulating German magazine for SMEs and the most important German start-up magazine.

Two TV advertisements raise awareness of products for start-ups and energy-efficient construction and refurbishment.

Customers can find detailed information quickly on the newly designed website.

KfW financing partners are involved in the marketing campaigns.

Financial partner support

As an institution without branches, KfW maintains close ties to its financing partners, to which it refers as its contacts in the TV advertising as well as in print and online media. They are the link to customers and advise them on KfW products. The partners were therefore involved in the campaigns in advance and supported with information packages as well as materials specifically tailored to the campaigns that could be accessed online. These materials were then customised for the relevant sales partners in pilot projects. This customised sales support is part of sales partner marketing which KfW established in 2013, initially with pilot partners as an extension of their marketing instruments. This systematically and structurally supports KfW financing partners, taking into account their respective sales requirements in offering their customers KfW products. Central components are joint sales campaigns as well as individual marketing and sales activities to be expanded in 2014.

Positive effects of the campaigns

The success of the flagship campaigns was continuously measured both quantitatively and qualitatively. This yielded positive effects after just a few weeks, above all through the broadcast of TV advertising spots. The campaigns helped to improve perception of KfW and its products. Moreover, customers were more strongly motivated to include KfW in planning their construction financing or their start-up projects. Visits to the KfW website increased substantially during the weeks in which the advertisements were broadcast.

Personal advisory services

KfW consultants at three infocenters provide personal answers to questions from customers and financing partners. Around 950,000 enquiries received by telephone or in writing confirm customers' extensive need for information. With a view to a high level of customer satisfaction, complaints management continues to be of particular importance. This approach to quality ensures quick, individual and solution-focused processing of customer issues. The complaints ratio remains low, which is a positive sign.

Customers can place an online request for advice as of September 2013.

On-lending Online 2.0 launched

Customers should not only be well informed but also supported in the best possible manner during the process to obtaining KfW loans. To this end, KfW along with pilot partners from the three major pillars of the banking sector launched the pilot project On-lending Online 2.0 (BDO 2.0) in 2012 to create an Internet-based promotional funds platform. The aim is to place the on-lending concept on a modern basis with future viability so that both customers and financing partners benefit.

After KfW jointly developed a roadmap with its pilot partners to implement a series of measures, the first key step was taken on 2 September 2013: customers can now request a consultation appointment directly on KfW's website with up to three financing partners for a large number of on-lending products. In 2013, only the pilot partners, i.e. most savings banks and cooperative banks, Deutsche Bank and Postbank – were initially available in this function. Additional financing partners will gradually follow in 2014.

There has been brisk demand from customers for the offer. By the end of 2013, customers had used the new online service at least 1,800 times to request a consultation appointment on KfW products at their home bank or savings bank. There is also great interest among financing partners; after all, customers are guided from the KfW website directly to their branches. Further steps are planned to convert the application process as well as KfW and ERP promotional loans processing to make them as web-based as possible and the online process even faster. Then the customer advisor of a participating financing partner can immediately confirm promotional eligibility of a project for selected products in the customer's presence. Once the loan application has been filed, it is possible to obtain immediate online approval. This enables what we refer to as the cappuccino effect. The fully automated process takes only a few minutes instead of several days – in other words, just as long as it takes to drink a cup of coffee.

Financing partners at the core of sales

Such an ambitious project can only work in close cooperation with financing partners. They are the key element to sales of KfW promotional products and make the contact with customers for KfW. The contact of key account managers to all banks, savings banks, cooperative banks, building societies, direct banks, regional state banks, promotional institutions of the federal states and insurance companies that offer KfW products is accordingly intensive. Key account management is the interface to our customers. It is important for us to support the financing partners through direct and detailed information at both product and process level. Moreover, key account management has an ear to the market, and transmits important information for new and further development of promotional products focused on the customer.

KfW set up a new communication format with its financing partners in 2013. The aim is early anticipation of market trends via open dialogue. This promotes transparency and efficiency, as product development and marketing measures can be implemented more quickly with sales planning and strategies more closely coordinated - all in a more focused manner. This intensive exchange helps to support the sales goals of our financing partners and KfW in equal measure.

The “sales partner information” and “on-line training” formats, which were implemented and extended in part in 2012 continued to be very well received. So too were the traditional training seminars for financing partners and multipliers, offered on site. Moreover, internal organisational changes helped to answer queries from financing partners even more quickly and in more detail.

Cooperative collaboration with multipliers

In addition to financing partners, multipliers such as associations, chambers and advisors are important contacts for KfW, with whom they were also in close contact in 2013. Joint activities were expanded and new collaboration agreements concluded.

One focal point of the collaboration with associations was conducting several events on demographic change. Information on energy-efficient refurbishment continues to play an important role for the multipliers as well.

The joint initiative “Better with Architects – Energy-Efficient Buildings” with the Federal Chamber of German Architects, for example, was continued due to popular demand. Publications on promotional products for energy-efficient refurbishment were produced in collaboration with some associations and distributed to members. Well over 1,000 architects, energy and tax consultants and other partners were reached through around 20 joint events with associations and chambers, as well as five regional conferences for the real estate sector on the “Energy-Efficient Construction”, “Energy-Efficient Refurbishment” and “Senior-friendly Conversion” programmes.

Dialogue marketing – directly targeting customers by post, continues to play an important role. Several hundred thousand advisors received information material on KfW programmes significant to their activity. Advisors also have access to the new Internet offering “KfW partners”, in which all relevant information is provided broken down by target group.

The number of people using the KfW Academy remained high in 2013. More than 3,200 architects, and energy and tax consultants received training and were invited to participate in discussions about KfW promotional programmes in around 20 classroom seminars, more than 30 on-line seminars and additional specialist events.

Numerous events promote intensive exchange.

Key account management has an ear to the market.

Associations, chambers and advisors are important contacts for KfW.

»» We support internationalisation

A strong export industry ensures growth and employment in Germany and Europe. We see it as our mission to support domestic companies in their international business. We play our part with our over 60 years' experience, in-depth industry knowledge, structuring expertise and each of our individually structured financings.

»» At a glance: Export and project finance in 2013

KfW IPEX-Bank is responsible for international export and project finance within the KfW Group.

KfW IPEX-Bank provides medium- and long-term financing for projects in Germany, Europe and the rest of the world in the interests of the German and European economies. As a specialist financier, we support medium-sized

companies and major corporations in maintaining and expanding their international competitiveness. This secures domestic jobs and economic strength, which is part of KfW's legal mandate.

Picking up speed on the Thames

KfW IPEX-Bank is lending approximately EUR 150 million to the Thameslink rolling stock project. The funds are being used to procure a total of 1,140 new rolling stock vehicles to be used in the Greater London area. They are to be supplied by the German manufacturer Siemens, whose services will comprise design, manufacture, commissioning and maintenance of the vehicles, with a total volume of approximately GBP 1.6 billion. The financing is being provided by a group of 19 inter-

national banks and the European Investment Bank. As one of the four lead banks in this syndicate, KfW IPEX-Bank has the role of the modelling bank. The project is of key interest to London-bound commuters. It will help shift from individual modes of transport to trains, thereby reducing harmful emissions. With this financing, KfW IPEX-Bank is contributing to two of its core business areas, financing infrastructure measures and providing lending for climate and environmental protection projects.

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German medical technology for Brazil

KfW IPEX-Bank is financing the export to Brazil of the latest medical technology manufactured by Siemens. The diagnostic medicine network Alliar Medicina Diagnóstica has ordered state-of-the-art MRT and CT scanners as well as molecular imaging systems. The national network already operates more than 80 medical diagnostic centres in 39 cities in Brazil, and plans to gradually expand its clinical network into rural areas. Alliar will be opening a series of new establishments in smaller towns in various Brazilian states and will equip them with German high-tech diagnostic equipment. KfW IPEX-Bank's funding is not only supporting a German exporter, but also helping to improve health care in an emerging market country.





Exporting German technology to Latin America – the provision of high-tech diagnostic equipment financed by KfW IPEX-Bank helps to improve health care in Brazil. Antônio Carlos Messias, managing director of Plani São José dos Campos, uses the equipment in two of his clinics in São José dos Campos, some 80 km from the capital São Paulo.



A fresh breeze in Uruguay

KfW IPEX-Bank is financing construction of the Generación Eólica Minas S.A. wind farm in Uruguay with a long-term project financing loan totalling USD 79.5 million. Uruguay is a growth market for renewable energy sources. The wind farm comprises 14 wind turbines by the Danish manufacturer Vestas Wind Systems A/S, and with an output of 42 megawatts, will supply around 40,000 typical households in the region with regenerative energy. In addition to Vestas, which, after supplying the turbines, will be responsible for their maintenance for the next ten years, another European exporter is involved in the green energy project, namely the Portuguese construction company Jayme da Costa. Project sponsor is Akuo Energy S.A.S., a leading French producer of energy from renewable sources. The Minas wind farm, located in the Lavalleja region in the southeast of Uruguay, is the first of its kind to be financed by KfW IPEX-Bank in Latin America. Supporting projects relating to renewable energies is a focal point of KfW IPEX-Bank's business activities. German and European manufacturers are the world leaders in this market.

German technology for Saudi Arabia

When complete, the Sadara Chemical Company (Sadara) complex in Jubail Industrial City II, in the east of Saudi Arabia, will be the world's largest integrated petrochemical facility ever built in a single phase. It is scheduled for completion in the second half of 2015. The total investment volume for the complex is around USD 20 billion. This includes a share of supplies from Germany alone of USD 700 million. Other significant European components have come from the UK, Spain, Italy and France. With a debt financing volume of around USD 12.5 bil-

lion, this is not only the largest project financing in the Middle East, but was also one of the largest project financing deals of 2013. A large number of international banks and export credit insurers are involved in the financing. KfW IPEX-Bank is the only German bank in the syndicate, and has provided financing in the amount of USD 200 million. It is assuming the role of Hermes structurer and agent for a loan tranche of USD 425 million.

Special ships for offshore projects

Two state-of-the art transport vessels are being built at the FSG shipyard in Flensburg, specially designed for use in the offshore industry. Buyer is the Dutch shipping company RollDock, which developed and patented the new, innovative ship design itself. The two identical ships are designed to transport particularly large or heavy cargo of up to 7,000 tonnes and can be loaded in three different ways. Financing of the vessels, provided by a banking syndicate led by KfW IPEX-Bank, supports Germany as a shipbuilding location. The new large-scale order has led to capacity utilisation and job security at the Flensburg shipyard, which has a long history. The total financing arranged by KfW IPEX-Bank is covered by an export credit guarantee from the Federal Government. It has a term of twelve years from delivery of the vessels.

Recycled glass as thermal insulation

A bank consortium led by KfW IPEX-Bank is supporting the construction of a plant in Russia to produce foam glass used as thermal insulation material with a loan of EUR 76 million. A total of four German exporters are supplying components to the modern production plant and providing their expertise for the project. The loan has been disbursed to the Russian

bank Vnesheconombank (VEB) in the form of indirect financing. The funds for the Russian promotional institution are structured as tied buyer credit and largely covered by an export credit guarantee from the Federal Republic of Germany. Foam glass is a thermal insulation material made of recycled glass particles which have been treated to form a foam-like structure. It is used in construction and civil engineering as well as for insulating gas and oil pipelines. The end product is currently considered the premium thermal insulation material on the market. This is an important further step for the German exporters – all mid-sized companies – in expanding their business in a fast-growing market. It seems there is considerable pent-up demand in Russia in the area of energy efficiency and building rehabilitation.

Business performance of KfW IPEX-Bank – we support internationalisation

KfW IPEX-Bank is responsible for the business sector Export and project Finance within the KfW Group. KfW IPEX-Bank has the legal form of an independent, wholly-owned subsidiary of KfW. The bank focuses on providing medium- and long-term financing to support the export industry, granting loans for environmental and climate protection projects, and financing transport and infrastructure projects as well as projects to secure the supply of raw materials.

A strong export industry ensures growth and employment in Germany and Europe. KfW IPEX-Bank sees it as its mission to support domestic companies in their international business.

Employment and prosperity in Germany and Europe are greatly dependent on the success enjoyed by the domestic export industry on the international markets. Lending a hand at this stage and supporting German and European companies in their global business is one of the underlying ideas of the KfW Group's legal mandate – and a task taken on by KfW IPEX-Bank. As a specialist bank, it has been a reliable financing partner to major corporations and medium-sized companies throughout Germany and Europe for over 60 years. It supports its customers' projects in both industrialised countries and emerging markets with tailored products.

KfW IPEX-Bank focuses on key industrial sectors and the areas of energy, environment, raw materials, transport and infrastructure.

Whether in the automotive industry, mechanical engineering, pharmaceuticals or electrical engineering, German and European businesses are market leaders in many high-tech fields. However, the various sectors are forced to rely on imported raw materials to secure domestic production, due to the lack of resources at home. KfW IPEX-Bank therefore finances projects around the world that are important to adequately supplying the economy.

Markets around the world are growing together, and the increasing exchange of intermediate and end products as well as services requires a resilient international

infrastructure. KfW IPEX-Bank supports this with loans for the expansion of road, rail, energy and data networks, and of seaports and airports. Moreover, the bank finances investments in aircraft, ships and rail vehicles. It also grants loans for the expansion of social infrastructure, such as hospitals, and the construction and modernisation of administrative buildings under public-private partnerships (PPP).

Long-term promotion of energy efficiency, further development of renewable energies and use of the latest environmental technology are core components of Germany's energy strategy and that of many other countries, too. European, and in particular German companies are world leaders in many areas of energy and environmental technology. KfW IPEX-Bank's financing products are also particularly aimed at companies from the energy and environmental areas in order that the innovative technologies can be applied around the globe. Extensive knowledge of the relevant industries, structuring skills and regional presence in important growth markets for the domestic export industry help the bank to make its offering attractive. The combined market success of manufacturers, project sponsors and the bank serves to secure employment and economic strength while also serving global climate protection.

Stable demand for export and project financing

The subdued growth of the global economy continued in 2013. This was primarily due to low momentum in the industrialised countries in the first half of the year in particular. In addition, developing and emerging market countries fell short of expectations, although their growth outperformed the world as a whole. However, these growth rates are far from the dy-

namism seen in the 2000s. A range of structural weaknesses in the areas of infrastructure, labour markets, education and financial systems are responsible for this, including in the large economies such as China, Brazil and India, in particular. However, especially the emerging markets continued to offer good sales opportunities for capital goods from Germany and Europe in 2013.

Competition in the market for large-volume project and export financing intensified in the reporting year. The restraint of the European lending banks due to the financial and sovereign debt crises, balance sheet adjustment and the forthcoming Basel III requirements diminished. European banks were very active on the markets once again. A strong presence of Japanese and emerging market banks also became established. Furthermore, the low interest rate environment created investment pressure for institutional investors such as pension funds and insurers, which are now more active in the lending market in addition to their capital market activities.

Overall, global demand for capital goods from German and European manufacturers remained stable in 2013, despite all developments. This was accompanied by expanded lending availability and alternative financing opportunities.

Excellent development in new business

The strengths of KfW IPEX-Bank's business model became abundantly clear in 2013; under its responsibility for the Export and project finance business sector, the bank achieved a lending volume totalling EUR 13.7 billion, which was EUR 0.3 billion up on the previous year. New commitments in 2013 greatly exceeded the bank's expectations of the previous year. This is partly due to the large-volume commit-

ments for individual transactions of a singular nature, such as the financing of a major project to build cruise ships worth around EUR 1 billion. This encouraging business development is thanks to the systematic implementation of the bank's strategy of supporting its customers in their international business as well as possible, with tailored financing.

New commitments by sector department

From medium-sized companies to major corporations, KfW IPEX-Bank supports German and European exporters in their international business. As a reliable partner, it helps the export industry to maintain and expand its competitive position on international sales markets in the long term, with individual financings tailored to each transaction.

KfW IPEX-Bank stands out in particular due to the structuring expertise and proven sector and market knowledge of its staff. Its products cater to the key industries of importance to the German and European economy. These include the environmental and energy sectors, along with basic industries, automotive and mechanical engineering, retail, pharmaceuticals, speciality chemicals, health and telecommunications. In transport and infrastructure, the bank focuses on the maritime industry, rail and aviation, as well as transport and social infrastructure. KfW IPEX-Bank is one of the world's leading providers of financing, particularly for ships, rail vehicles, aircraft and energy projects, as well as for projects in the basic industries.

All sector departments of KfW IPEX-Bank made a positive contribution to the overall result in 2013. The largest new lending volume of EUR 2.8 billion was attributable to the Maritime Industries sector depart-

KfW IPEX-Bank is responsible for the business sector of Export and project finance within the Group. It achieved a new lending volume of EUR 13.7 billion in 2013.

KfW IPEX-Bank's core products are medium- and long-term financings tailored to customer needs.

Excellent business performance – all sector departments made positive contributions to the 2013 results.

Structuring skills and regional market knowledge make commitment possible, also in countries where access to financing is difficult.

ment. Here, commitments largely comprised financing of offshore projects and cruise ships, such as a major purchase by US cruise ship operator Royal Caribbean Cruises Ltd. from the MEYER WERFT shipyard in Papenburg, Lower Saxony. Financing in the amount of EUR 2.5 billion was committed in the Power, Renewables and Water sector department. This volume is testament to the sustainable approach of KfW IPEX-Bank to use its financing activities to make a key contribution to energy efficiency and climate protection. Basic Industries along with Financial Institutions, Trade & Commodity Finance each contributed EUR 2.0 billion to the bank's overall very healthy performance.

An overview of target markets for the export industry

A German or European origin of goods and services stands for quality and reliability around the world. KfW IPEX-Bank's mission is to support export companies in seizing their competitive advantage based on this reputation and generating concrete business from it. The bank supports its customers and their projects worldwide with its individual financing solutions, which helps to secure jobs and

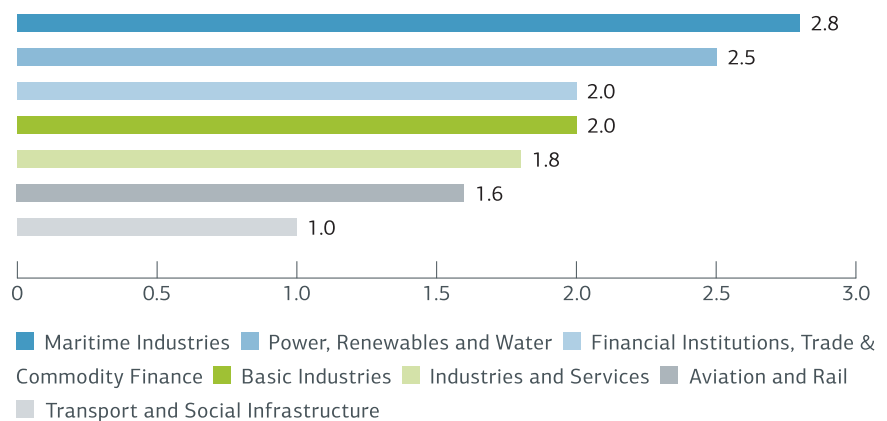
growth at home. It follows growth markets in the developing and emerging market countries that are important to the German and European economies – in terms of both exports and direct investment. The bank also supports internationally oriented companies through financing in Germany, for example investment and acquisition financing.

Due to its extensive knowledge of regional market conditions and many years of experience in structuring complex export and investment plans, KfW IPEX-Bank makes a point of also operating in countries where access to finance is difficult. To support its international activities, the bank has representative offices in Abu Dhabi, Bangkok, Istanbul, Johannesburg, Moscow, Mumbai, New York, São Paulo and Singapore, and a branch office in London. In view of the increasing import and investment activities in the emerging markets, KfW IPEX-Bank plans to moderately expand its foreign representation.

In 2013, 20% of new loan commitments were in Germany (EUR 2.7 billion), 42% in the rest of Europe (EUR 5.8 billion) and 38% in countries outside Europe

New commitments by sector department (EUR in billions)¹⁾

Total: EUR 13.7 billion²⁾



¹⁾ Excluding bank refinancing from the shipping CIRR

²⁾ Differences in the totals are due to rounding.

(EUR 5.2 billion). The 30% share accounted for by new business in emerging markets, which was actually slightly higher than the previous year, continues to underscore these countries' great relevance for the export industry. These markets have shown themselves to be largely crisis-proof growth drivers in the real economy. German and European companies will be expanding their business outside Europe and generating more new business, supported by KfW IPEX-Bank, a reliable partner with a long-term approach.

Environmental and social responsibility

Responsible action is one of KfW IPEX-Bank's guiding principles. When considering export and finance projects, KfW IPEX-Bank as a specialist financier aims to provide particular support to those projects that will have a positive impact on the climate and environment. In view of the international nature of its lending business and the global environmental, social and economic relevance of its actions, KfW IPEX-Bank joined the Equator Principles Financial Institutions (EPFI). The so-called equator banks, which now number almost 80, adhere to a comprehensive framework in order to meet en-

vironmental and social standards when financing projects.

This includes compliance with International Finance Corporation (IFC) Performance Standards and the World Bank Group's Environmental, Health, and Safety (EHS) Guidelines. The equator banks maintain a continuous dialogue in which KfW IPEX-Bank actively participates in order to further enhance these high standards.

For example, the Equator Principles III (EP III) were adopted for all equator banks in the summer of 2013. Among other things, this update expands the scope of application to include project finance, project-related corporate loans and bridge loans for subsequent project financing. It also tightens the requirements for climate management. EPFIs must now oblige borrowers to publicly report emission levels in the case of financing for all climate-related projects emitting over 100,000 tonnes of CO₂ equivalent annually. Human rights also gain more focus in this way, with the companies receiving financing required to observe increased due diligence in this regard.

KfW IPEX-Bank assumes responsibility and supports in particular those projects and export plans which have a positive effect on the environment.

KfW IPEX-Bank abroad



■ Branch office ■ Representative offices

KfW IPEX-Bank is an Equator Principles Financial Institution (EPFI).

The bank also assesses the environmental and social impact of all of its financing projects.

Of the bank's total volume of new commitments, 17% supported projects that have a positive impact on the climate and environment.

KfW IPEX-Bank's directive for sustainable financing includes this and more. In addition to the updated Equator Principles and the OECD rules under the ECA Common Approaches – which address environmental and social aspects of projects in the buyer's country of origin – the self-imposed directive has expanded the sustainability assessments to include all of the bank's remaining financing products.

Besides these rules, KfW IPEX-Bank also includes the carbon offsetting of its own operations under the umbrella of responsibility. For example, the bank's head office in Frankfurt's West Arcade building is one of the most energy-efficient office buildings in the world. The 13-storey building's primary energy consumption of 98 kWh/m² p.a. is well below existing standard levels. Moreover, together with its parent company KfW, KfW IPEX-Bank also uses 100% green electricity generated by hydropower. Since 2006, KfW IPEX-Bank has rendered remaining emissions, such as those resulting from necessary business trips, carbon-neutral through the purchase and retirement of emission certificates.

Environmental and social impact assessment in export and project finance

As part of its own environmental and social directive, KfW IPEX-Bank allocates every project it finances into one of three categories, "A", "B" or "C". Category A is for projects that could have considerable, wide-ranging and to some extent irreversible environmental and social impacts. This would include for instance projects with a major, invasive impact on the ecosystem, such as raw materials or dam projects. Category B is for projects which have a more limited impact on the environment and society and are usually controllable by current technology; this applies to many industrial projects. Projects with negligible or no negative environmental and social impact are allocated to category C.

Opinions of internal experts on environmental and social impacts are included in the project assessments. KfW IPEX-Bank only grants financing to the cases it assesses in depth if the internationally accepted environmental and social standards, or, in the case of project financing, project-related corporate loans and

bridge loans, the Equator Principles have been adhered to. Projects to be implemented in an EU country or OECD country are excluded from in-depth assessment. It is assumed that these countries have established environmental and social approval and monitoring practices comparable to Germany's.

Climate and environmental protection projects in core business

KfW IPEX-Bank funded projects with a clear and measurable positive impact on climate and environment totalling EUR 2.3 billion in 2013.

This corresponds to 17% of the total new commitment volume and also represents an important contribution to achieving KfW's ambitious climate and environmental protection targets. The focus of financing in 2013 was primarily on regenerative energy projects, but also included highly efficient conventional energy projects. The bank also engaged extensively in financing investments in energy-efficient and environmentally-friendly production plants in the Industries and Services sector department, as well as environmentally-friendly transport such as rail vehicles.

As one of the world's largest ship financiers, KfW IPEX-Bank places particular emphasis on the energy efficiency of the ships it finances, under the "green shipping" banner. A newly developed assessment method enables the bank to take the energy efficiency of a vessel into account as an additional criterion when making its financing decision and to favour energy-efficient ships over other, traditionally built ones. The assessment method uses the Energy Efficiency Design Index (EEDI), which is based on the requirements of the International Maritime Organization (a special agency of the United Nations), and is an indicator of a vessel's energy efficiency and CO₂ emissions. This benefits the environment and also makes good business sense, because the environmental aspects increasingly affect the likelihood of chartering, and thus also the risk of default.

All of this underscores that, as a bank, KfW IPX-Bank accepts responsibility and is committed to improving ecological living conditions – both in Germany and in the

destination countries of exports around the globe.

Economic and financial results for 2013

The Export and project finance business sector, which is under KfW IPEX-Bank's responsibility, contributed EUR 437 million to KfW's consolidated earnings in 2013, underscoring its role as one of the main sources of income for the Group. Although the economic environment was not an ideal starting point, the sector made a further contribution to securing the long-term promotional capacity of KfW.

The operating result of the Export and project finance business sector, which is managed by KfW IPEX-Bank, was slightly lower than in the previous year at EUR 634 million. It largely comprised net interest and commission income, after deduction of administrative expenses. The ongoing merchant shipping crisis led to further charges against the valuation result, although these were not as high as in the previous year. This increased the profit from operating activities to EUR 458 million.

A positive business result given the economic circumstances was also reported for the legally independent KfW IPEX-Bank GmbH whose accounts are balanced separately. KfW IPEX-Bank GmbH conducts all market transactions of Export and project finance.

The volume of lending for the Export and project finance business sector amounted to EUR 59.9 billion as at 31 Dec. 2013 (previous year: EUR 60.9 billion).

Outlook for 2014: KfW IPEX-Bank becomes established as specialist financier in a demanding market environment

The conditions dictated for KfW IPEX-Bank's business by the global economy are set to improve in 2014. While the economies of the industrialised countries are likely to grow considerably after a recent period of weaker growth, momentum in the

emerging market countries will remain largely unchanged. A moderate economic recovery is predicted for the euro area, with Germany remaining growth driver. The US economy is also expected to report much better growth in 2014 than in the previous year, which was marked by the budget crisis.

Growth in the emerging markets remained at the level of the two previous years, which is far from the momentum experienced in the past. In this respect, demand for exports from Germany and Europe and for their financing is likely to remain stable or even slightly increase.

Despite the persisting government debt and financial crises, competition among banks is expected to rise. There is also likely to be great investment pressure for institutional investors such as insurers and pension funds, which seek long-term privately-financed investment opportunities. KfW IPEX-Bank will confront the changed market conditions and develop solutions to support the export and investment projects of German and European industry in constructive collaboration with its partners in the financing market.

In this environment, KfW IPEX-Bank aims to assert its position as a leading specialist financier of, and reliable partner to, the German and European economies. The development of the sales markets in industrialised and emerging market countries continues to offer export opportunities for German and European companies. Supporting the international business activities of German and European companies will thus remain a focal point of KfW IPEX-Bank's activities in 2014 – through tailored medium- and long-term financing of exports and foreign investments in important key industries. The Export and project finance business sector plans moderate organic growth for the next few years. The new commitment volume target for 2014 is EUR 13.2 billion (2013 target: EUR 13.1 billion).

Supporting the international business activities of German and European companies will remain a focal point for KfW IPEX-Bank in 2014.

The Export and project finance business sector underscored its role as a major source of income for the Group in 2013 and actively contributed to KfW's promotional capacity for the long term.

»» We promote development

Our goal is to improve the living conditions of people living in developing and emerging market countries and to support economic and social progress for the long term.

The business area KfW Development Bank and the KfW subsidiary DEG thus promote construction and expansion of public infrastructure, environmental and climate protection as well as private economic initiatives and investments as drivers of sustainable development.

»» At a glance: Promotion of developing and emerging market countries in 2013

On behalf of the Federal Government, KfW and DEG support partner countries in achieving economic progress, overcoming poverty and protecting climate and environment. Demographics play an important role in many projects. While Germany has to meet the challenges of an aging society, many developing countries are characterised by high rates of population growth and the socio-economic consequences of this trend.

Half the population in many poor countries is under the age of 20 and youth unemployment is widespread. This is compounded by the trend of increasing urbanisation. KfW and DEG promote projects and programmes that contribute to positively shaping demographic change – in education, health and infrastructure.

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Education can change the world

Nelson Mandela, deceased recipient of the Nobel Peace Prize, once said: "Education is the most powerful weapon we can use to change the world". One innovative approach is the recently launched "Regional Education Finance Fund for Africa" (REFFA). The fund, totalling EUR 18 million provided by KfW from funds provided by the Federal Ministry for Economic Cooperation and Development (BMZ), offers African schoolchildren, apprentices and students means of financing their education via loans or savings products from local financial institutions. The fund promotes fields of study whose graduates are in high demand on the labour market, as a means of paving the way into professional life. The Africa fund sets a precedent, as the first loans have already been issued in Tanzania and the Democratic Republic of Congo. Banks in five other countries have expressed an interest in collaboration by acting as local providers for education financings.

Successful family planning in Burundi

Burundi is one of the poorest countries in the world but also has a high population growth rate of 3.2% per year. The number of inhabitants in this densely populated East African country could increase by two and half times by 2050. For this reason, family planning has a high priority for Burundi's future. KfW has promoted the programme initiated by the government of Burundi to improve mother-child health on behalf of the BMZ for several years now. The number of women who regularly use modern methods of contraception increased more than fivefold within ten years as a result of information campaigns, further education measures particularly directed at health centre staff, as well as through the acquisition of contraception and medical equipment. Medical care of mothers and infants has also considerably improved. Women in Burundi are thus empowered to take more control of family planning themselves. This opens up education and employment opportunities for them, as well as creating a more positive economic situation for their families and a better future for the children.

Water supply in the north of Pakistan

How can you give people new prospects in their meagre small-scale farming lives to slow the mass migration of the rural population to the big cities in the lowlands? This is the aim of the programme that KfW has financed for the Federal Foreign Office over the past four years in northern Pakistan. In this crisis region bordering Afghanistan, around 140 rural water supply and sewage systems have been constructed or improved in collaboration with the Aga Khan Foundation. The population has also received instruction in hygiene. The new water points in farms and the elimination of water-borne diseases have significantly improved the day-to-day lives of people in the Hindu Kush region. These measures have defused conflicts over water usage between villages. Although the population is required to make a major contribution of its own, there is a long waiting list of villages requesting admission into the programme.

Energy-saving homes for Mexico

Mexico's degree of urbanisation is very high at 78%. At the same time, demand for homes in cities is on the rise due to a growing middle class and high population growth. The country's population is increasing by almost two million people each year. For these reasons, around half a million new homes are built every year. Moreover, Mexico, as an emerging market country, is experiencing a steady rise in energy consumption. The Mexican government thus faces the challenge of aligning humane living conditions with climate and environmental protection requirements. To meet this challenge KfW supports the introduction of EcoCasa, a programme for energy-efficient housing construction on a mandate from the Federal Government and the UK's Department of Energy and Climate Change (DECC), and in cooperation with the Inter-American Development Bank (IDB).



The aim of the programme, which is scheduled to run for seven years, is to mobilise USD 0.5 billion for private investments in the construction of more than 38,000 energy-efficient houses and 600 passive houses for low-income families. The model programme incorporates the experience gained by KfW in its promotional activities for energy-efficient construction in Germany.

The programme not only improves the quality of life of many families and creates jobs in the construction sector, but also saves more than 1 million tonnes of CO₂. By employing facade cladding, shading elements, building insulation or solar panels to reduce energy consumption in the cooling of buildings, such buildings require at least 20% less energy than conventional buildings. Mexico has now embarked upon a groundbreaking path in climate protection – a path that can serve as a model for other develop-

ing and emerging market countries. Consequently, EcoCasa was recognised as a “Lighthouse Activity” by the Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) at the climate conference in Warsaw at the end of 2013.

DEG: Viable investment in rural development

In many developing countries the agriculture and food industry is an important economic sector upon which many people depend for jobs and income. Entrepreneurial investments make sense in economic and developmental terms; it pays to grow produce directly in a country and process local resources. Such measures add value, create jobs and result in production processes being modified and technologies updated. DEG committed EUR 208 million for investment in the agricultural and food industry in 2013. It funded projects in Latin America and

Africa for vegetable processing and dairy products manufacture.

Financial sector: A key to development

Every national economy needs an efficient financial sector; otherwise the circular flow of money, which is important for all investments, will not work. DEG's commitment is thus aimed at developing this key sector. To ensure success in achieving this goal, DEG participates in establishing and institutionally strengthening private financial institutions: banks, insurance undertakings, leasing companies and private equity firms.

In 2013, DEG provided funding in Turkish lira for the first time. It issued bonds of the Turkish DenizBank A. S., which will use them for long-term refinancing of loans to small and medium-sized companies in the agricultural sector.

Together with other providers of equity such as the Dutch development finance institution FMO, the European Investment Bank (EIB) and the UK's CDC Group, DEG participated in the “LeapFrog Fund II” in 2013. The fund finances investment in the insurance and financial sector in Africa and Asia, thus improving the previously limited access to insurance services, pensions and savings. The fund's first issuance was co-financed by KfW in 2010.

DEG also participated in the “Mediterrania Capital II” fund in 2013, which finances primarily small and medium-sized companies in North Africa, thus contributing to the creation of new jobs.

Investing in future markets

As a pioneer investor, DEG enters future markets in Africa and other regions, promoting private economic initiatives there. It shows that entrepreneurial commit-

ment is possible under difficult conditions as well and thus increases the leverage effect of its promotion by mobilising additional private equity.

These countries include Morocco, Mozambique, Nigeria, Tanzania, Uganda and Zambia in Africa; Bangladesh, Myanmar, Nepal and Sri Lanka in Asia, and Bolivia and Nicaragua in Latin America.

In 2013, DEG committed financings with a volume of EUR 630 million to future markets, of which EUR 326 million went to Africa. This enables it to further expand its commitment as a pioneer investor.



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Prospects through vocational training

Vocational training is the focal point of the Philippine group Cravings, which also produces foodstuffs and operates its own restaurant chain. Its cookery school, the “Center for Culinary Arts” (CCA) founded in Manila in 1995, offers a broad training programme ranging from Master's and Bachelor's degree courses in restaurant management to intensive and taster courses in cooking and baking. CCA is one of the few Asian enterprises to be accredited by the American Culinary Federation.

“Teach Them to Cook, Feed Them for a Lifetime” is the motto of the Culinary Education Foundation launched by Cravings founder Susana P. Guerrero. Young people from socially deprived backgrounds can complete a six-month training course free of charge, thus giving them prospects for the future.

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CRAVINGS not only distinguishes itself through social commitment; its environmental management in foodstuffs production has also garnered international respect. It exclusively uses fruit and vegetables from wholly organic farms, for example, and has created a sustainable ecological waste disposal system.

Marinela Guerrero-Trinidad has meanwhile taken over the helm of the company from her mother and successfully expanded it. Cravings now has almost 30 locations and employs around 1,000 people – 40% of whom are women. The expansion was financed by loans DEG granted to Marinela Guerrero-Trinidad in 2008, two long-term loans totalling around USD 20 million. DEG recently financed a new student residence as well as a library with a research centre. The expansion will result in 120 new positions at Cravings, for teachers in the cookery school and restaurant and kitchen staff.

Award for solar project financed by DEG

Financing climate and environmental protection projects is one of DEG's strategic focal areas. A large number of investments in wind, water and solar energy were supported in 2013. The South African solar project "ACWA Power Solafrica Bokpoort CSP Power Plant", in which DEG holds a share, was selected as "Solar Deal of the Year 2013" by World Finance magazine. A net power generation of 50 megawatts and the capacity to store thermal energy for nine hours make it the solar energy system with the world's longest thermal energy storage capacity.

Improving living conditions for small-scale farmers

With his pictures of Benin, the internationally renowned photographer Albert Watson provides an impressive insight into the world of the farmers who work for "Cotton made in Africa" (CmiA). This initiative implemented by DEG in close collaboration with numerous other parties is committed to the sustainable production of cotton in Africa, thus improving the living conditions of around 435,000 small-scale farmers. Following Watson's trip to Benin, DEG initiated an exhibition in 2013 featuring a selection of his photos in Cologne's Rautenstrauch-Joest-Museum. Two of the photographs were recognised with the renowned PR-Bild Award in 2013.

DEG: Effective for more than 50 years

As a long-standing development finance institution, DEG has successfully promoted private enterprises for more than 50 years. Successful enterprises create skilled jobs and generate income. As a result of the investments DEG co-financed in 2013 alone, around 970,000 jobs were secured or created.

DEG was founded on 14 September 1962 under the name Deutsche Gesellschaft für wirtschaftliche Zusammenarbeit mbH. Its mission: to promote entrepreneurial initiatives in developing countries. DEG has been a member of the KfW Group since 2001 and is part of KfW's international financing. In that time it has more than tripled its annual promotional business – from EUR 412 million to almost EUR 1.5 billion today.



Marinela Trinidad (CEO of Cravings)

KfW Development Bank – for better future prospects worldwide

KfW promotes development programmes in Africa, Asia, Latin America and south-eastern Europe on behalf of the Federal Government. It supports developing and emerging market countries in improving living conditions and at the same time protecting the climate and environment. To this end, KfW Development Bank finances investments and reform programmes focussed on local needs in a variety of different sectors; while promoting water kiosks in Zambia, KfW finances investments in expanding renewable energies in Brazil. In Liberia, it helps with the reintegration of ex-combatants into society.

achieving its goals in development policy and international cooperation. The Federal Government's strategic guidelines and policies thus serve as the basis for KfW Development Bank's scope of activities.

KfW's role in German Financial Cooperation is that of both an experienced bank and a development policy institution. This means that KfW promotes and supports partner programmes and projects in developing and emerging market countries on behalf of the Federal Government – from the first conceptual idea through implementation to the subsequent assessment of results.

Development financing from federal budget and own funds

A portion of the funds used stems from the Federal Government's budget. KfW also employs to a great extent own funds it has raised on the capital market. KfW's own funds totalled around EUR 3.0 billion in 2013 and thus 58% of total new commitments of the business area KfW Development Bank.

KfW supports all its partner projects during the entire project cycle.

KfW further increased its financial commitments in 2013, providing around EUR 5.3 billion for development programmes around the world. The previous year, commitments in this area amounted to EUR 4.9 billion.

Bank and development institution

KfW has supported the Federal Government for more than 50 years now in

KfW Development Bank commitments from 2009 to 2013, by financing instrument

	2013	2012	2011	2010	2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Financing instruments					
FC grants	1,611	1,347	1,336	1,036	1,112
FC standard loans	139	179	145	179	230
FC development loans	977	1,600	1,713	2,142	878
of which budget funds	66	112	134	215	106
of which KfW funds	911	1,487	1,579	1,927	772
FC promotional loans	2,135	1,603	996	913	1,151
Delegated funds	406	187	343	183	111
Total	5,268	4,916	4,532	4,452	3,482

Differences in the totals are due to rounding.

Source of funds for KfW Development Bank commitments from 2009 to 2013

	2013	2012	2011	2010	2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Budget funds	1,816	1,639	1,614	1,430	1,448
KfW funds	3,046	3,091	2,575	2,840	1,923
Funds from other donors	406	187	343	183	111
Total	5,268	4,916	4,532	4,452	3,482

Differences in the totals are due to rounding.

KfW funds, combined with budget funds, are counted as German Official Development Assistance (ODA). In this way, KfW supports the Federal Government in meeting its international obligations in combating poverty and protecting the climate and environment. This also includes the political target of increasing the proportion of funding for development cooperation to 0.7 % of gross national income. Through KfW's use of own funds, it has made a major contribution to increasing Germany's official ODA payments.

In view of this, the Federal Government's budget funds are used primarily as grants to the least developed countries (LDCs), especially those in Sub-Saharan Africa.

A significant portion of budget funds – EUR 800 million or 44 % – was put to use in Africa in 2013. The previous year this figure stood at EUR 742 million. Total commitments to Sub-Saharan Africa amounted to around EUR 1.2 billion, thus exceeding the previous year's figure by far (EUR 870 million).

A major portion of federal budget funds is used in the poorest countries – primarily in Sub-Saharan Africa.

KfW Development Bank commitments by region in 2013

	Budget funds		Total commitments	
	EUR in millions	%	EUR in millions	%
Sub-Saharan Africa	800	44	1,188	23
Asia and Oceania	518	29	1,658	31
Europe and Caucasus	83	5	721	14
Latin America	151	8	663	13
North Africa/Middle East	231	13	861	16
Supraregional	33	2	176	3
Total	1,816	100	5,268	100

Differences in the totals are due to rounding.

Broad range of partner countries

KfW's range of partner countries is more varied and dynamic than ever before:

- The least developed countries, or LDCs, **remain important partners**, with average gross national income per capita of less than USD 992, according to the UN. German Financial Cooperation with Mali was resumed in 2013 as a result of positive political developments, and – after a 25-year hiatus – with Myanmar as well. Although this group of countries continues to face huge economic and infrastructural challenges, it can also demonstrate progress.
- More and more LDCs are becoming **fragile countries**, confronted with major crises, conflicts and political instability. For this reason, KfW has supported programmes on behalf of the Federal Government in Afghanistan and Pakistan, for example, with EUR 297 million. Last year, KfW provided a total of EUR 85 million on behalf of the German Federal Government to aid the population suffering in Syria and to provide for the civil war refugees in neighbouring countries. Measures to rebuild the country may also be financed in future from the Syria Recovery Trust Fund, which KfW manages on a trust basis for the German Federal Foreign Office, the United Arab Emirates Ministry of Foreign Affairs, and other donors. Many projects in LDCs and fragile countries also serve to prevent crises and conflicts.

- KfW uses funds from the Federal Ministry for Economic Cooperation and Development (BMZ) to support reconstruction in **countries that are victims of natural disasters**. For example, when the devastating typhoon hit the Philippines at the end of 2013, the bank engaged in unbureaucratic assistance by providing EUR 2.8 million from a current health project for emergency medical aid in the disaster zone. The BMZ released an additional EUR 13 million via KfW shortly thereafter for reconstructing the infrastructure in the crisis region.
- Former developing countries such as Brazil and India are now classed as emerging markets. Despite exhibiting high growth rates, they still face major social and environmental challenges such as sustainable energy generation, for which they continue to require international support.

KfW adapts to these varied and complex conditions in German Financial Cooperation, offering tailored solutions for each context. It is the only way to achieve maximum effectiveness.

Tailor-made financing

Which financing model is employed depends on the amount of debt, economic strength, development status, project partner capacities and also the type of project. The promotional spectrum ranges from grant-only programmes through loan and grant combinations to KfW funds in a framework of low-interest loans with

LDCs, fragile states, emerging market countries – KfW's range of partner countries is broad.

KfW financings are flexibly adapted to meet the requirements of partner countries and their projects.



The most important FC financing instruments

Grant/loan from budget funds: financing provided exclusively from German Federal Government budget funds. Loans have to be repaid by the borrower; grants do not.

Development loan: combination of federal budget funds and funds that KfW raises on the capital market. Combining funds enables the loan terms and conditions to be adjusted to the economic strength of the relevant borrower country and features of the project in question.

Promotional loan: loans to partners in developing countries as mandated by the Federal Government, which KfW fully refinances on the capital market. The loans are used for projects that have a development impact and are financially viable, but for which financing via the commercial banking sector is not offered (for example, due to the longer financing period necessary).

KfW Development Bank disbursements from 2009 to 2013

	2013	2012	2011	2010	2009
	EUR in millions	EUR in millions	EUR in millions	EUR in millions	EUR in millions
Financing instruments					
FC standard loans/grants	1,291	1,378	1,391	1,306	1,216
FC development loans	885	765	1,109	1,192	579
FC promotional loans	1,080	615	554	661	808
Delegated funds	91	110	199	134	71
Total	3,348	2,869	3,253	3,292	2,674

Differences in the totals are due to rounding.

long repayment terms, loans on terms close to the going market rate and equity investments.

Under German Financial Cooperation (FC), grants from federal budget funds are primarily awarded to poor and weakly developed countries. These funds are not repaid. However, fixed development policy criteria must be observed, which include self-responsibility and commitment from the partner country. Further developed countries may also receive grants for projects that contribute directly to combating poverty or preserving global public goods such as tropical rain forests.

However, more economically viable countries usually receive loans – particularly development and promotional loans – that are closer to capital market terms. The partner countries in these cases benefit from KfW's favourable refinancing opportunities (AAA rating) and partial risk assumption by the Federal Government.

Debt conversion, cancellation and restructuring

For partner countries with particularly high external debt, debt conversion was again used as a development policy instrument in 2013. In such case, a partner country promises Germany it will use funds for development projects in its own country. In return, the German Federal Government waives debt of at least that amount. KfW participates in the debt conversion on the German side. It examines and assesses the proposed projects. It then concludes an agreement with the partner country that governs the details of the debt conversion.

KfW signed new debt conversion agreements with Egypt and Tunisia, thus securing the prospect of debt cancellation totalling EUR 77 million. Germany also cancelled debts of Egypt, Côte d'Ivoire, Pakistan and Peru totalling EUR 90 million on the basis of previously concluded agreements, after the funds had been used for development programmes.

KfW also participated in international debt agreements in 2013 arranged with the international donor community through the Paris Club. Under the HIPC Initiative (Heavily Indebted Poor Countries), that serves to combat poverty in such countries, KfW concluded a debt restructuring arrangement for the Republic of Côte d'Ivoire, for example. Outstanding debt from financial cooperation totalling EUR 302 million was subsequently cancelled for that West African State.

On behalf of the Federal Government ...

The German Federal Government invested over EUR 1.8 billion in development projects worldwide via KfW in 2013. The Federal Ministry for Economic Cooperation and Development (BMZ) is the primary client in FC. KfW also operates on behalf of other federal ministries, such as the Federal Foreign Office (AA), the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB), the Federal Ministry for Economic Affairs and Energy (BMWi), and the Federal Ministry of Education and Research (BMBF).

Partner countries benefit from KfW's favourable refinancing opportunities and partial risk assumption by the Federal Government.

... and Europe

After the ministries of the German Federal Government, the European Union (EU) is the most important public partner and client of KfW Development Bank. It co-operates with the European Commission and the European Union's foreign affairs area in many different ways; for example, in joint funding and implementation of development projects, and in the role of project contractor for deployment of EU funds. KfW is also committed to further advancing European development finance in close consultation with the Federal Government. For example, as part of EU foreign and development policy, KfW agreed on the "Mutual Reliance Initiative" for mutual recognition of procedures with the European Investment Bank (EIB) and the Agence française de Développement (AFD) in 2013. This unique global initiative aims for improved coordination and division of tasks between the three development banks on joint projects. This involves the institutions relying on one another's competencies with respect to project preparation and assessment. This saves costs, reduces the burden on partner countries, increases efficiency and generates capacities for new projects.

The financing instrument "blending" has gained particular importance during the past few years. This is a combination of EU grants and loans from development banks aimed at enabling larger investment projects and more efficient use of public EU development funds. Blending enables provision of long-term low-interest financing for important infrastructure projects in developing and emerging market countries, for example in renewable energies, water supply/sanitation, transport, financial sector development and promotion of SMEs. For example, a blend of EUR 6 million in EU grants and some EUR 84 million in loans from KfW and other development banks was employed in El Salvador to support expansion of a hydroelectric power plant. KfW, along with the European Investment Bank (EIB) and Agence Française de Développement (AFD), is the European Commission's most important partner in implementing such projects. The regional focus to date

has primarily been on the EU neighbouring region (southern Mediterranean, south-eastern Europe) as well as Latin American and Sub-Saharan Africa.

Reliable development partnership

Programme responsibility always lies with a partner country institution – generally ministries, government authorities or other government institutions – regardless of which institution is the client and the financing partner. KfW also works with NGOs or indirectly with private enterprises via banks. The requirement is, however, that the joint project meets the development policy criteria of the Federal Government and of the partner country.

The programmes must be proposed by the partner country during negotiations with the Federal Government and be in line with that country's own development strategy. Then, on behalf of the Federal Government, KfW carefully assesses each project to determine whether they have developmental benefits. If so, KfW supports the projects during their entire duration, ensuring among other things that both tenders and awards comply with internationally recognised regulations. The bank's experts are available to reliably support the project partners with their knowledge and many years of development policy experience.

If difficulties arise during the course of the project despite careful planning and preparation, KfW continues its involvement, seeking solutions together with partners. This dialogue even in difficult times is important to a project's progress, simultaneously enabling knowledge transfer and thus supporting the project partner in establishing additional capacities and skills.

Local representation in more than 70 countries

KfW is globally active, continuously expanding its international presence in order to be closer to projects in its partner countries. It now has offices in over 70 countries in addition to the Frankfurt, Berlin and Brussels locations.

More efficiency through mutual recognition of procedures between European cooperation partners.

Tenders and awards for project measures are in line with internationally recognised regulations.

The number of KfW-seconded staff and local professionals in the offices is also increasing along with the rising demand for international cooperation. Maintaining a local presence enables better cooperation with partners as well as with other donors. It also allows the progress made by the projects promoted to be continually supervised and evaluated.

Promotional focal areas

- KfW used a large portion of promotional funds (around EUR 1.6 billion) to finance **social infrastructure** in 2013. It supports its partner governments, for example, in constructing schools and healthcare facilities. The healthcare projects directed at the fight against infectious disease committed in 2013 will reach more than 37 million people. The water, sanitation and waste disposal sectors are also very important; KfW committed a volume of EUR 726 million to new projects in this area alone, thus improving living conditions of 18 million people worldwide.
- Promoting **financial systems** has traditionally been a high priority for KfW. A commitment volume of EUR 1.2 billion went to promotion of small compa-

nies in particular in 2013, thus creating almost 700,000 jobs worldwide, the majority of which were for women.

- Around EUR 1.7 billion was dedicated to **economic infrastructure** in 2013, primarily in programmes supporting the use of renewable energies. The energy projects promoted in the past year alone helped around 1.5 million more people to have access to modern energy supply. This is an important step towards achieving the Federal Government's target of ensuring that a total of 100 million more people have permanent access to modern energy by 2030.
- Overall, KfW is one of the world's largest finance providers in the area of **climate and environmental protection**. Around 53% (around EUR 2.8 billion) of all new commitments by KfW Development Bank were made for climate and environmental financings in 2013. Based on calculations by KfW, these funds will save around 9.3 million tonnes of greenhouse gas emissions annually in the next few years, which is approximately equal to the annual emissions of Cyprus.

By promoting micro-enterprises, nearly 700,000 jobs were created worldwide in 2013 alone – the majority for women.

Commitments by KfW Development Bank from 2012–2013, by OECD/DAC development sector¹⁾

	2013		2012	
	EUR in millions	%	EUR in millions	%
Social Infrastructure & Services	1,609	31	1,955	40
Education	257	5	329	7
Health	297	6	212	4
Population Policy/Programmes & Reproductive Health	110	2	66	1
Water Supply & Sanitation/Waste Disposal	726	14	1,145	23
Government & Civil Society	176	3	198	4
Other Social Infrastructure & Services	43	1	5	0
Economic Infrastructure & Services	2,906	55	2,251	46
Transport & Storage	202	4	60	1
Energy Generation/Distribution	1,461	28	1,025	21
Finance	1,243	24	1,159	24
Business & Other Services	0	0	7	0
Production Sectors	161	3	208	4
Agriculture, Forestry, Fishing	160	3	122	2
Industry, Construction, Mineral Resources & Mining	1	0	86	2
Other	592	11	503	10
Total	5,268	100	4,916	100

Differences in the totals are due to rounding.

¹⁾ Consistent with CRS (Creditor Reporting System) sector names of the OECD's (Organisation for Economic Cooperation and Development) DAC (Development Assistance Committee)

Advancing climate protection

KfW's business policy commits it to the principle of sustainability. Thus, with its programmes on climate and environmental protection, water supply, securing food provision, energy efficiency and renewable energies, it has for many years supported development that creates prospects for future generations.

The primary objective in climate protection is to reduce greenhouse gas emissions and consequently also global warming. For example, on behalf of the Federal Government, KfW promotes a low-carbon approach to use of energy in partner countries through investment in climate and environmentally-friendly energy systems, energy efficiency and renewable energies. In so doing, it is intensifying the cooperation with other national development banks under the umbrella of the International Development Finance Club (IDFC). KfW has chaired the IDFC since its foundation in 2011.

As the consequences of climate change are already tangible in developing countries, KfW is increasingly financing measures to protect against floods and natural disasters in order to strengthen climate resilience, or the ability of partner countries to adapt to climate change. In this context, the insurance funds KfW launched on behalf of the Federal Government, such as the "African Risk Capacity Pool" and the "Climate Insurance Fund", which support local institutions in offering insurance against the consequences of climate-related damage to agricultural operations, regions and even entire countries, are of great importance.

Established KfW financing instruments such as environmental credit lines, structured funds for renewable energies and foundations were further developed last year. KfW also continued to implement a variety of climate protection initiatives on behalf of the Federal Government, including the Initiative for Climate and Environmental Protection (IKLU) for the BMZ, the International Climate Initiative (IKI) for the BMUB and the German Climate Technology Initiative (DKTI) on behalf of both aforementioned ministries. Moreover, KfW supports the BMUB and

the UK's Department of Energy and Climate Change (DECC) in financing Nationally Appropriate Mitigation Actions (NAMAs). These enable development countries to implement ambitious climate protection programmes with financial assistance from industrialised countries. KfW finances a number of pilot projects that pursue this objective. On behalf of the BMZ, KfW, in cooperation with Gesellschaft für Internationale Zusammenarbeit (GIZ), also prepares selected developing and emerging market countries for efficient employment of the monies from the future Global Climate Fund (GCF), which was resolved in 2010 by the member states within the framework of the UN Framework Convention on Climate Change (UNFCCC).

KfW helps to shape the future at many levels and is also active as an advisor. For example, KfW Executive Board member Dr Norbert Kloppenburg represents Germany on a high-level international expert committee, the objective of which is to identify solutions to global financing issues within the framework of a new sustainable development agenda.

Results assessment and ...

KfW projects are not shelved and forgotten after the actual project phase has ended. KfW's independent evaluation department headed by Eva Terberger, professor at the University of Mannheim, is responsible for the follow-up phase. The evaluation department examines whether the goals were achieved for the long term and assesses the results a number of years after projects are concluded. KfW publishes all findings of this results assessment, so that it and other institutions active in development policy can learn from these experiences. The success rate is high – around 80% of projects financed by KfW are rated as successful.

The focus in promoting climate protection is largely on supporting developing countries in adjusting to climate change.

... transparency

At the end of 2013, KfW expanded its transparency portal on development finance (<http://transparenz.kfw-entwicklungsbank.de/en/ueber/index.html>). The new project database contains in-depth information on all projects in developing and emerging market countries which have been contractually agreed on behalf

of the Federal Government since January 2013. The transparency portal also presents KfW's commitment in its partner countries since 2007 in a user-friendly format. Facts and figures inform readers of the source and use of funds, broken down by country and sector. Evaluation results provide information on the impacts of projects.

KfW Development Bank commitments by country in 2013, ranked by budget funds

Rank	Country	Budget funds (BMZ, AA, BMUB)	KfW own funds	Funds from other departments/donors
		EUR in millions	EUR in millions	EUR in millions
1	Afghanistan	255.81	0.00	0.00
2	Tanzania	64.50	0.00	0.00
3	Burundi	52.00	0.00	15.00
4	Mozambique	48.00	18.00	0.00
5	Nigeria	47.92	0.00	0.00
6	Namibia	45.30	0.00	12.76
7	Democratic Republic of Congo	44.34	0.00	0.00
8	Niger	43.51	0.00	0.00
9	Liberia	43.00	0.00	0.00
10	Palestinian territories	42.84	0.00	20.44
11	Yemen	42.44	0.00	0.00
12	Pakistan	42.20	0.00	0.00
13	Tajikistan	36.50	0.00	0.00
14	Malawi	36.00	0.00	32.22
15	Vietnam	33.50	155.00	0.00
16	Ethiopia	30.52	0.00	9.65
17	Kyrgyzstan	28.00	0.00	0.00
18	Bolivia	27.00	0.00	0.00
19	Tunisia	26.70	64.50	0.00
20	Peru	22.50	25.01	0.00
21	Jordan	21.50	35.00	9.40
22	Burkina Faso	20.50	0.00	0.00
23	Rwanda	20.30	0.00	0.00
24	Bangladesh	19.44	0.00	0.00
25	South Africa	19.40	74.88	0.00
26	Turkey	18.96	290.80	25.80
27	Sierra Leone	18.34	0.00	0.00
28	El Salvador	17.00	16.99	0.00
29	Benin	17.00	0.00	0.00
30	Cambodia	17.00	0.00	0.00
31	Zambia	17.00	0.00	0.00
32	Colombia	15.25	0.00	0.00
33	Morocco	14.00	428.15	0.00
34	Brazil	14.00	0.00	0.00

Differences in the totals are due to rounding.

KfW Development Bank commitments by country in 2013,
ranked by budget funds

Rank	Country	Budget funds (BMZ. AA. BMUB)	KfW own funds	Funds from other departments/donors
		EUR in millions	EUR in millions	EUR in millions
35	South Sudan	13.00	0.00	22.44
36	Côte d'Ivoire	12.00	0.00	12.92
37	Mongolia	11.50	0.00	0.00
38	Cameroon	10.50	0.00	0.00
39	Kosovo	10.00	15.50	7.35
40	Ecuador	10.00	0.00	0.00
41	Haiti	10.00	0.00	0.00
42	Honduras	10.00	0.00	0.00
43	Zimbabwe	10.00	0.00	0.00
44	Uzbekistan	10.00	0.00	0.00
45	Mauritania	9.00	0.00	0.00
46	India	8.50	502.63	0.00
47	Togo	8.47	0.00	0.00
48	Somalia	8.03	0.00	0.00
49	Ukraine	8.00	0.00	4.95
50	Indonesia	8.00	75.00	7.60
51	East Timor	7.80	0.00	0.00
52	Egypt	7.75	12.60	0.11
53	Bosnia and Herzegovina	6.00	71.00	7.94
54	Armenia	6.00	30.00	0.00
55	Kenya	5.00	0.00	0.00
56	Mali	5.00	0.00	0.00
57	Serbia	4.66	0.00	0.00
58	Sri Lanka	4.40	0.00	0.00
59	Georgia	4.25	55.00	6.50
60	Ghana	3.97	0.00	0.00
61	China	2.83	399.17	0.00
62	Lebanon	2.00	0.00	0.00
63	Nepal	2.00	0.00	0.00
64	Chile	1.59	143.89	0.00
65	Montenegro	1.00	66.00	0.00
66	Moldova	1.00	0.00	0.00
67	Myanmar	1.00	0.00	0.00
68	Syria	0.21	0.00	49.62
69	Mexico	0.00	79.69	7.00
70	Uruguay	0.00	54.11	0.00
71	Uganda	0.00	15.00	85.13
72	Macedonia	0.00	15.00	0.00
73	Albania	0.00	0.00	0.94
74	Philippines	0.00	0.00	0.12
	Supra-national	330.38	403.16	67.70
	Total	1.816.08	3,046.07	405.59

Differences in the totals are due to rounding.

DEG: Financing opportunities – shaping development

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH promotes entrepreneurial initiatives in developing and emerging market countries to create sustainable growth and better living conditions for their people. To this end, it provides private companies with long-term financings and advises them in implementing their projects.

Most jobs are created in the private sector. For this reason, DEG finances economically, socially, environmentally and developmentally sustainable investment projects by private companies, through loans and guarantees as well as equity investments and quasi-equity loans. DEG directs its offering particularly at small and medium-sized enterprises (SMEs).

As a promotional institution with a development policy mandate, DEG operates on the principle of subsidiarity. It provides funding to companies where it is not offered by the market or not to a sufficient degree. DEG thinks and acts in an entrepreneurial manner as it conducts its activities. This includes generating appropriate returns and aiming for a return on equity that enables expansion of financing capability.

Sound knowledge of economic, social, economic and political conditions in the host countries, proximity to customers and permanent local presence are necessary to effectively fulfil the promotional mandate. To ensure this, DEG maintains 13 local offices in Africa, Asia, Latin America and Eastern Europe. It also shares use of KfW's more than 70 foreign representative offices.

The economy slowed temporarily in 2013 in developing and emerging market countries, but grew nonetheless at an average rate of 5%. Many companies in partner countries were also unable to receive long-term capital in 2013. DEG succeeded

once again in meeting the demand with offers of long-term investment finance, in some cases also in cooperation with other European and international development financiers.

New financing commitment record

The continued high demand for DEG's financing products in 2013 enabled further expansion of the financing business as planned. A new record was set, with financing commitments totalling EUR 1,450 million for 109 investment projects. The commitments were provided to 49 countries. Bangladesh, Zambia and Tanzania are among the least developed countries (LDC) to which DEG provided funding.

The portfolio consisting of own and trust activities rose to EUR 6,783 million disbursed to 735 projects in 80 partner countries.

An overview of strategic goals

As a pioneer investor, DEG consciously enters future markets at an early stage, promoting expansion of the private economy even under difficult circumstances – as a driver of development.

In 2013, funds totalling EUR 630 million were committed for investments in Africa and other future markets. Of this sum, 326 million was earmarked for Africa – primarily for financial sector projects and infrastructural investments.

EUR 794 million of commitments in 2013 went to SMEs.

Equity investments and quasi-equity loans amounted to a commitment volume totalling EUR 572 million – a new record high.

DEG financings totalling around EUR 1.5 billion were committed in 2013.

More than half of new commitments – EUR 794 million – went to SMEs.

A total of EUR 649 million of the new commitments went to promote projects in climate and environmental protection, as well as adaptation to climate change. The increase resulted largely from a rise in commitments for projects in renewable energies.

DEG provided EUR 152 million to German companies that invest in developing and emerging market countries in 2013. These funds are used to co-finance investments in the manufacturing industry, renewable energy projects and agricultural production, in countries including China, Chile and Uruguay.

The lion's share of commitments – EUR 492 million – went to projects in Asia. Latin America followed with EUR 401 million. Commitments for Africa totalling EUR 326 million were all destined for investments in the Sub-Saharan region.

KfW committed funding of EUR 171 million to Europe and the Caucasus.

Broken down by industry, the financial sector received the largest share of commitments at EUR 479 million. Providing financial means for banks, funds and specialist financiers improves financing opportunities particularly for small and medium-sized enterprises in partner countries, which have little access there to long-term investment capital.

DEG committed EUR 404 million to investments in the manufacturing industry. It provided investment capital to manufacturers of pharmaceuticals, plastics and ceramics. Financing commitments in the service sector amounted to EUR 46 million.

Infrastructure projects received commitments of EUR 314 million. The DEG funds committed in 2013 primarily went to financing of renewable energy power stations as well as investments in telecommunications and water supply.

DEG committed EUR 208 million for investments in the agricultural and food industry, particularly in the areas of upstream processing projects and agricultural services.

Sustainability as a prerequisite

The prime requirement in qualifying for DEG support is that the investment projects are environmentally and socially sound. Consideration of environmental and social risks is thus an integral aspect of DEG's overall risk assessment. It examines every project to determine whether human rights are respected, fair working conditions are provided and operations are environmentally sound.

For all projects that DEG committed financing to in 2013, the companies were obliged to comply with national requirements as well as international environmental and social standards. These include the performance standards of the International Finance Corporation (IFC) in their revised form, which also take the UN's Universal Declaration of Human Rights into account, as well as the core labour standards of the International Labour Organization (ILO).

By agreeing environmental and social action plans, DEG assumed an important role in projects with potentially higher environmental and social risks, in order to improve the situation in companies and to promote compliance with international standards in partner countries.

DEG closely supported the companies in implementing action plan requirements. DEG monitors the agreed activities and steps for the entire duration of financing.

Environmentally friendly operation also applies to DEG's own business. For example, the DEG building reports very low energy consumption. All carbon emissions resulting from building operations and business trips are rendered carbon-neutral through the purchase and retirement of emission certificates.

Environmental and social action plans promote compliance with international standards.

Networks for higher efficiency and improved customer benefit

DEG works closely together with other bilateral and international private sector financiers to jointly achieve higher efficiency and improved customer benefit. A special priority is the cooperation with members of the European Development Finance Institutions (EDFI).

DEG and twelve other EDFI members have been promoting private investments totalling around EUR 1 billion in the African, Caribbean and Pacific Group of States (ACP) along with European Financing Partners (EFP) – the European Investment Bank's (EIB) co-financing instrument – since 2003. DEG participated in boosting the financing instrument a fourth time in 2013 with a EUR 25 million contribution. Eleven EDFI members, the European Investment Bank (EIB) and Agence française de Développement (AFD) are partners in the "Interact Climate Change Facility" (ICCF) to finance projects with a positive impact on the climate. DEG provided EUR 30 million for their top-up in 2013. The ICCF provided around EUR 91 million for five projects in 2013.

Loans and equity financing with a total volume of EUR 972 million were committed for 25 new projects in 2013 as part of the collaboration with FMO from the Netherlands and PROPARCO from France. DEG's share was a EUR 414 million contribution, of which EUR 248 million was committed under the joint "Friendship Facility".

Promotional programmes strengthen development effects

Through its promotional programmes, DEG supports measures of private companies that support development. They combine public financings and those of the respective companies. A total of EUR 28.4 million was available in 2013 for the promotional programmes carried out by DEG on behalf of other institutions. Commitments were made to 165 projects, 87 of which involved participation by German companies.

German and other European companies can realise development-effective measures via the developPPP.de programme on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ). EUR 15.2 million of BMZ funds was available in 2013. New commitments were made to 63 developPPP.de projects.

Co-financing of feasibility studies supports companies in planning and preparing specific investment projects. DEG co-financed feasibility studies of German and European companies with EUR 1.5 million of BMZ funds.

DEG executes accompanying measures in financing projects in order to further boost development effects. This supports companies in improving energy efficiency, for example, or creating adequate environmental and social management systems. EUR 4.1 million was provided in 2013 for 77 committed accompanying measures; EUR 1.8 million from BMZ funds and EUR 2.3 million from DEG funds.

DEG launched the "Upscaling" programme, which it financed from its own funds, for the first time in 2013 to promote pioneer investments of SMEs in developing and emerging market countries that want to expand an innovative business model. Three financings were committed in East Africa in 2013 and EUR 1.0 million was disbursed.

DEG continued to promote local SMEs in Afghanistan by means of a credit guarantee facility with funds provided by the BMZ and the United States Agency for International Development (USAID). In 2013, 666 guarantee commitments were granted for a lending volume of USD 22.2 million. Since the facility was launched in 2005, guarantees have been committed for around 3,250 loans, with a total lending volume of USD 115.6 million.

The second phase of the programme to secure the income of African cotton farmers, the "Competitive African Cotton Initiative Phase II" (COMPACI II), has been underway since 2013.

Promotional programmes support measures that benefit development.

The living conditions of small-scale farmers are being improved in cooperation with foundations.

Around one million jobs were secured or newly created through DEG investments in 2013.

DEG and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) were mandated by the Bill & Melinda Gates Foundation and the BMZ to implement it. The promotional programme “Coffee Partnership for Tanzania” (CPT) was also implemented on a mandate by the Bill & Melinda Gates Foundation. This programme is aimed at 85,000 coffee farmers and runs until mid-2016.

Value creation and effectiveness

Investments co-financed by DEG created or secured a record of around 970,000 jobs in 2013, due in particular to the high number of jobs at supplier companies and SMEs that benefit from the refinancing lines to financial institutions.

DEG has implemented the corporate policy project rating (GPR) system in order to control and assess the quality and effectiveness of its commitments in terms of business and development policy.

An average rating of 2.0 resulted for newly committed projects in 2013 – a further sign of high development quality.

DEG plans to expand its promotional business both qualitatively and quantitatively in the next few years.

In partner countries the co-financed companies contribute an estimated EUR 812 million to annual public revenues through tax payments and generate annual net foreign exchange revenues of around EUR 3 billion.

Of those projects, 75% contribute directly to the Millennium Development Goals (MDG), particularly to ensure environmental sustainability, combat poverty and promote gender equality.

Many of the companies also assume comprehensive social responsibility. They pay above-average wages and operate healthcare facilities, kindergartens and schools, which are used by the staff and their family members as well as the general population.

Economic success

DEG expanded its promotional business as planned in 2013 as well. It generated a positive operating result again despite weak economic momentum in its partner countries.

Net income after risk provisioning and tax amounted to around EUR 78 million. Taking into account withdrawals from the special-purpose reserve earmarked for accompanying measures, this resulted in net retained earnings of around EUR 81.5 million in 2013.

Investing in the future

Developing and emerging market countries will continue to record higher economic growth than advanced economies in the future. However, average growth in the emerging market countries will be slower in the future.

While the rising growth in industrialised countries is likely to have a positive effect on developing countries through foreign trade, a rise in interest rates worldwide due to the changed monetary policy of industrialised countries could present a risk to developing countries' growth. The expected development underscores DEG's challenging and complex business environment which, however, also generates opportunities for development and business.

DEG plans to further expand its promotional business both qualitatively and quantitatively in the next few years. In addition to the more highly developed countries which continue to have a high need for investment, the newly emerging future markets in less developed countries in particular are of increasing relevance. The long-term financing demand from companies willing to make investments is likely to further increase.

Long-term fulfilment of its development and business policy mandate and future-oriented, risk-adequate portfolio management will remain central management factors for DEG in the future. DEG's strategic image of the future developed in 2012 and confirmed by a review in 2013 constitutes the basis for the priority areas of DEG's activities.

»» Capital markets

KfW is a sought-after partner on the international capital markets. Investors around the globe value the first-class credit quality and liquidity of KfW bonds. Integrity, continuity, sustainability and a sense of responsibility determine the actions of KfW.

KfW bonds: a safe investment in good times and bad

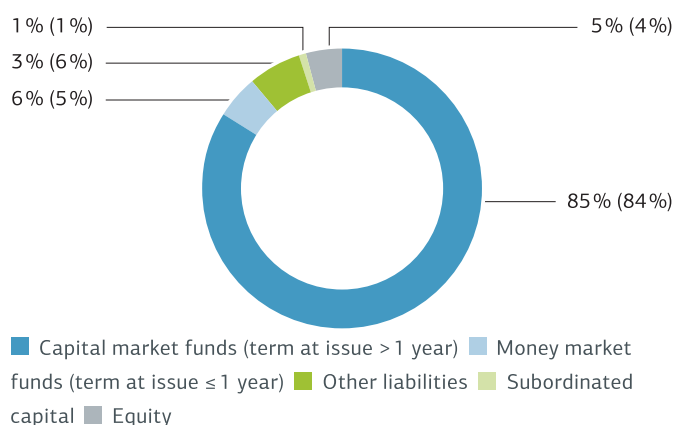
KfW is one of the most active and largest bond issuers in the world. It funds its business activities almost exclusively via international money and capital markets. The KfW Group bundles its refinancing activities and liquidity, currency, interest rate and asset management for the entire group in the Capital Markets business sector. This is also where investments in commercial securitisation transactions for a capital-market-oriented promotion of SMEs have been managed since the spring of 2013. The Capital Markets business sector is also responsible for performing the capital market-related tasks commissioned by the Federal Government. These include executing holding arrangements in the privatisation of Deutsche Telekom and Deutsche Post.

The situation on the international money and capital markets improved considerably in financial year 2013 with the easing of the European sovereign debt crisis. After the Federal Reserve's announcement that it was scaling back its expansionary monetary policy at the end of the H1 2013 temporarily had a negative impact on the markets, the structural stabilisation measures in the euro area in the second half of the year had an increasingly calming effect on the money and capital markets.

Overall, expansionary monetary policy by central banks and the high liquidity on financial markets in 2013 led to a significant decrease in yield premiums across all asset classes from many issuers. Irrespective of this trend, KfW's safe and highly liquid bonds remained highly appreciated and experienced continued heavy demand from international institutional investors, particularly central banks, in 2013.

Capitalisation of the KfW Group

2013 (2012), total: EUR 432.1 (472.0) billion



Differences in the totals are due to rounding.

KfW's capital market reputation: a valuable asset that determines our actions on the capital market

KfW enjoys an excellent reputation on the international capital markets due to its diversified and reliable funding strategy. This reputation and the explicit direct guarantee provided by the Federal Republic of Germany, along with a stable shareholder structure, form the foundation for the KfW Group's successful issuing activity.

KfW issued 218 bonds in 13 different currencies in 2013, thereby raising long-term funding with a value of EUR 65.4 billion. The planned volume at mid-year was reduced by EUR 5 billion to around EUR 65 to 70 billion due to higher than expected unscheduled loan repayments.

KfW was once again commended on several occasions by the international trade press in 2013, a visible sign of its successful capital market presence. For example, "EuroWeek" magazine presented the KfW team responsible for the issue business the award for "most impressive supranational/agency funding team" for the fifth time in a row. "EuroWeek" also recognised the KfW USD benchmark bond 1/2013 as the best bond issue in US dollars in the "Supranational, Agency" category. The US finance magazine "Global Finance" declared KfW the "World's Safest Bank" – likewise for the fifth time in a row.

The Australian "KangaNews" chose KfW as "Kangaroo Issuer of the Year in its Sector", recognising the successful market launch of its bonds denominated in Australian dollars. The information service "cmdportal" declared KfW the best issuer in its segment for its 2013 capital market presence.



First-class credit rating

The Federal Republic of Germany has been explicitly liable for the bonds issued by KfW since 1998 in accordance with section 1a of the KfW Law. KfW's credit rating is thus primarily based on the creditworthiness of the Federal Republic and reflects its rating awarded by rating agencies.

KfW's credit quality is assessed by the international ratings agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's. As part of their regular assessment of credit ratings, all three agencies confirmed their best possible assessments for both KfW's short-term and long-term rating again in 2013. Standard & Poor's and Fitch Ratings published the rating outlook "stable" for KfW – the same as for the Federal Republic of Germany. Moody's, on the other hand, maintained the "negative" outlook it has held since summer 2012 for Germany and thus also for KfW. The reason for changing the outlook at that time was the European sovereign debt crisis and the related potential risks for Germany.

At year end, KfW's ratings were as follows:

KfW's ratings

As at 31 Dec. 2013	Fitch Ratings	Moody's Investors Service	Standard & Poor's
Short-term rating	F1 +	P-1	A-1 +
Long-term rating	AAA	Aaa	AAA
Outlook	Stable	Negative ¹⁾	Stable

¹⁾ Moody's Investors Service changed KfW's long-term rating outlook to "stable" on 7 March 2014.

Top rankings for sustainability at KfW

The experiences of recent years show that sustainability aspects play an increasingly large role in investment decisions. KfW bonds offer attractive investment opportunities for socially responsible investors, as they combine the best credit quality with an exceptional sense of responsibility.

For a number of years now, independent sustainability rating agencies such as Sustainalytics, oekom research and imug have awarded KfW top rankings for the sustainable focus of bank business and processes in an international comparison. KfW has thus positioned itself as a leading promotional bank and remains true to its claim: "Responsible banking". Against this backdrop, KfW bonds offer investors an attractive sustainable investment opportunity.

As at the end of 2013, KfW was rated as follows by the independent sustainability rating agencies:

- **oekom research:** KfW received "prime status" within the group of financial institutions with the highest ratings; for sustainability, KfW earned a B- rating (on a scale of A+ to D-). KfW thus ranks third out of a total of 23 financial institutions assessed.
- **Sustainalytics:** In the sustainability rating awarded by Sustainalytics, KfW received 82 out of a total of 100 possible points, thus ranking it second out of a total of 192 listed and non-listed banks assessed.
- **imug:** In the sustainability rating, KfW ranked among the top four of 127 national and international issuers, and first among German financial institutions assessed. KfW also ranked the highest among the eight promotional banks rated.

The diversity of currencies, instruments and structures makes KfW bonds attractive for investors

Benchmark bonds remain important in 2013

KfW's three-pillar strategy in the issue business enables it to offer suitable products to investors worldwide. The first pillar comprises high-volume benchmark bonds denominated in euros and US dollars with high liquidity. It is traditionally KfW's most important source of refinancing in terms of volume. The bonds were issued with maturities of two, three, five, seven and ten years in 2013. Thus KfW was once again the only issuer in its segment able to offer its investors bonds along the entire yield curve. The choice of suitable issue timing and a systematic focus on the market bond parameters demanded by investors in the areas of currency, maturity and volume were once again the basis for a successful placement and stable secondary market performance by these KfW benchmark bonds in 2013. The average issue volume of the eleven transactions within this first funding pillar stood at almost EUR 3.5 billion in 2013.

Overall, the proportion of bonds in the two benchmark programmes representing long-term KfW financing remained constant in 2013 at 59% (2012: 59%). Institutional investors, particularly from Europe and Asia, in addition to central banks and national and international asset managers, were the dominant investor groups for benchmark bonds in euros. With a share of 50% (previous year: 50%), banks retained first place among investors in EUR benchmark bonds, which is proof of their need for low-risk, liquid investment products. There was balanced demand from all regions of the world for KfW's benchmark bonds in US dollars. Central banks were the largest investor group for benchmark bonds in US dollars, reaching a record 60% (2012: 46%).

Funding in 2013/2012 by instrument

	2013		2012	
	EUR in billions	%	EUR in billions	%
Securities	65.4	100	78.2	100
Benchmark bonds	38.9	59	46.1	59
Other public bonds	24.0	37	28.0	36
Private placements	2.5	4	4.1	5
Loans	0	0	0.4	< 1
Credit-linked notes	0	0	0.2	< 1
Other	0	0	0.2	< 1
Total	65.4	100	78.7	100

Differences in the totals are due to rounding.

The second pillar of KfW's funding concept comprises all public transactions outside the benchmark programmes. These include low-volume bonds in the core currencies euro and US dollar, as well as in other major currencies such as the British pound sterling, Australian dollar, Japanese yen, Canadian dollar, Brazilian real and Turkish lira. The share of these public KfW bonds was just under 37 % in 2013, similar to the previous year (2012: 36 %). The average issue volume of the 113 transactions within this second funding pillar was the equivalent of almost EUR 212 million.

EUR Benchmark Programme 2013

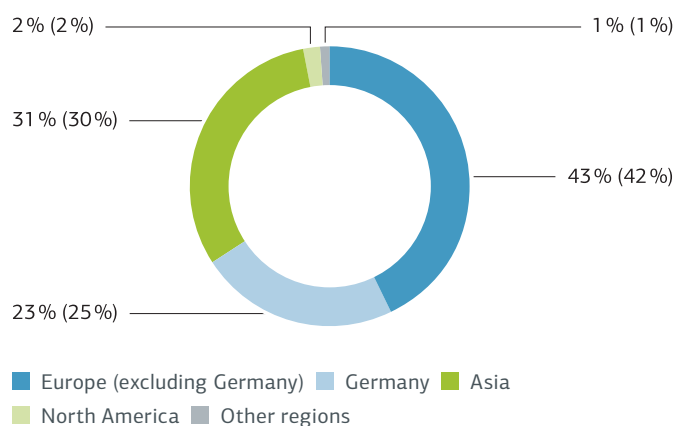
			2013
	EUR in billions	Maturity	Interest rate as %
KfW EUR Benchmark I/2013	5.0	7 years	1.125
KfW EUR Benchmark II/2013	4.0	3 years	0.500
KfW EUR Benchmark III/2013	4.0	5 years	0.875
KfW EUR Benchmark IV/2013	3.0	10 years	2.125
KfW EUR Benchmark V/2013	5.0	5 years	1.125

The third pillar of KfW funding comprises the issuance of KfW securities and promissory note loans that are individually tailored to the requirements of institutional investors in terms of currency, structure and maturity. At just under 4%, the share of these private placements in the total funding volume was slightly less overall than the previous year (2012: 5%). The average issue volume of the 94 transactions within this third funding pillar was almost EUR 27 million.

USD Programme 2013

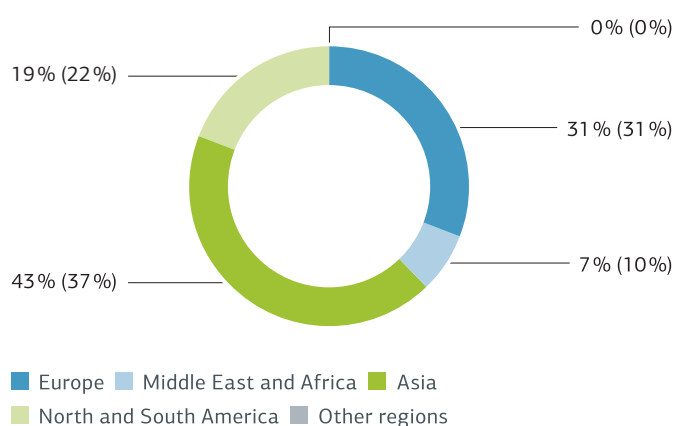
			2013
	USD in billions	Maturity	Interest rate as %
KfW USD Benchmark I/2013	4.0	10 years	2.125
KfW USD Benchmark II/2013	5.0	3 years	0.500
KfW USD Benchmark III/2013	3.0	5 years	1.000
KfW USD Benchmark IV/2013	5.0	2 years	0.500
KfW USD Benchmark V/2013	3.0	7 years	2.750
KfW USD Benchmark VI/2013	4.0	3 years	0.625

Placement of KfW EUR Benchmark bonds 2013 (2012)



Differences in the totals are due to rounding.

Placement of KfW USD Benchmark bonds 2013 (2012)



Differences in the totals are due to rounding.

Diversity of currencies: a key strategy component of KfW funding

As a result of the wide range of options for setting up its bonds in terms of structure and currency denomination, KfW can address changing market conditions and investor requirements at any time. Currency risks which may arise when KfW issues foreign currency bonds are excluded by simultaneously concluding hedging transactions.

Overall, KfW placed bonds in 13 different currencies in 2013 (2012: 15). At the end of the financial year, KfW had bonds outstanding in 23 different currencies (2012: 23).

The euro and the US dollar remained the most important currencies of KfW funding in 2013. KfW raised a total of 87 % of its capital market funds in these two core currencies. However, in order to appeal to as broad and diversified an investor base

as possible, KfW also issues bonds in many other currencies. In the reporting year these were primarily the Australian dollar, British pound sterling, Japanese yen and Canadian dollar.

KfW successfully placed the two largest ever foreign-issued bonds in Australian and Canadian dollars on the capital market in 2013. The issue volume totalled 1 billion Australian dollars and 1 billion Canadian dollars. Moreover, KfW concluded two further transactions in the Hong Kong financial centre in 2013 after its successful debut in Chinese renminbi in 2012.

Funding in 2013/2012 by currency

	2013		2012	
	EUR in billions	%	EUR in billions	%
EUR	31.4	48	38.4	49
USD	25.4	39	25.0	32
AUD	2.6	4	4.3	6
JPY	1.6	2	1.6	2
GBP	1.5	2	5.2	7
Other currencies	3.1	5	4.1	5
European currencies (SEK, NOK, TRY, CHF, RUB)	0.7	1	2.1	3
American currencies (BRL, CAD)	1.9	3	1.4	2
Asian currencies (SGD, CNY)	0.1	<1	0.2	<1
Oceanic currencies (NZD)	–	–	0.2	<1
African currencies (ZAR)	–	–	<0.1	<1
Total	65.4	100	78.7	100

Differences in the totals are due to rounding.

Euro and US dollar most important KfW funding currencies

EUR

The euro is KfW's most important funding currency. With a volume of EUR 31.4 billion in 2013, KfW raised 48 % of its total funding volume in this currency (2012: 49 %). This included a total of five high-volume benchmark bonds with three, five, seven and ten-year maturities. KfW raised additional funds of EUR 10.4 billion via other EUR bonds and promissory note loans.

USD

The US dollar remained KfW's second most important funding currency. KfW raised funds with an equivalent value of EUR 25.4 billion in the year under review. This included a total of six high-volume benchmark bonds with two, three, five, seven and ten-year maturities. This corresponds to 39 % of the funding volume (2012: 32 %).

AUD

KfW issued bonds in Australian dollars in an amount equivalent to EUR 2.6 billion in 2013. This corresponded to a share of the total funding volume just short of 4 % (2012: 6 %). This issue volume meant that KfW was again the largest issuer in its segment of the "kangaroo" market.

JPY

The Japanese capital market has traditionally been a key source of funding. KfW issued a total of 71 yen bonds in 2013 with an equivalent value unchanged from the previous year at EUR 1.6 billion. This corresponded to 2 % of funding volume (2012: 2 %).

GBP

KfW has been a very active issuer with a solid market position in pounds sterling for years now. In 2013, however, the attractiveness of funding in pounds sterling declined due to unfavourable currency swap conditions. KfW raised funds equivalent to EUR 1.5 billion in this currency in 2013. This corresponds to 2 % of its funding volume (2012: 7 %).

Other

As in the previous year, the proportion of other currencies to the total funding volume amounted to over 5 %. Of this amount, 2 % was attributable to the Canadian dollar and 1 % each to the Brazilian real and the Turkish lira. Other currencies in the reporting year were the New Zealand dollar, Norwegian krone, Swedish krona, South African rand and Chinese renminbi. The value of other currencies in KfW's total funding volume was EUR 3.1 billion.

Tried and tested capital market strategy to continue in 2014 – KfW funding on a sound foundation

KfW expects to see a refinancing volume comparable to the previous year's level of between EUR 65 billion and EUR 70 billion in financial year 2014. The main determinants of the planned funding requirement are the promotional volume, which will remain at a high level according to KfW's projection, unscheduled repayments from current lending business, and the repayment structure of outstanding bonds.

With a view to the market environment, Europe's efforts to solve its sovereign debt crisis and to the US Fed's planned tapering of bond purchases will remain the dominant factors on the capital markets. Both factors have the potential of at least temporary relapse and may thus contribute to a rise in general market volatility. KfW is confident, however, that the financial markets will remain robust in 2014. With the explicit, direct guarantee by the federal government, it sees itself well equipped at all times. KfW's funding concept will thus remain on solid foundations in the future too.

Short-term funding – commercial paper for liquidity management

Many investors showed only a limited risk appetite in 2013, and their investment decisions focused on safe and, in particular, short-term investment options. The KfW commercial paper, which is well-established on the international money markets, is an ideal instrument in this respect, and was very popular in 2013.

KfW's business activities developed very encouragingly in the money market segment in 2013. The demand for safe and short-term investments in KfW commercial paper remained high.

KfW provides commercial paper in all major currencies. This gives investors the opportunity to acquire short-term securities with German sovereign risk that are not denominated in euros. In the short-term market segment, KfW has been successfully defending its position among the world's largest commercial paper issuers with its two programmes for years now.

KfW uses its two commercial paper programmes, the most important components of the KfW Group's liquidity management, to raise short-term funds for a term of up to twelve months.

The Multicurrency Commercial Paper Programme designed for global investors has a programme volume of EUR 40 billion and is the most important short-term source of funding for KfW. It provides investors with investment opportunities in all major currencies. Commercial paper was issued in twelve different currencies in 2013, the most important ones being the US dollar and the British pound. The issue volume in the multicurrency commercial paper programme was higher year-on-year in 2013. The outstanding commitment volume amounted to EUR 19.9 billion at the end of 2013 (year-end 2012: EUR 17.3 billion).

The US Commercial Paper Programme with a programme volume of USD 10 billion was specially designed for the US market. KfW uses this programme to cover most of its need for short-term funds in US dollars. The issue volume remained unchanged year-on-year. The outstanding commitment volume amounted to USD 7.8 billion at the end of 2013 (year-end 2012: USD 7.8 billion).

KfW issued a total of 1,505 securities in the two commercial paper programmes together in 2013 (2012: 1,029).

KfW's securities transactions are sustainable

At KfW, securities business involves first and foremost managing financial investments to control liquidity across the Group in the form of a liquidity portfolio. This is designed to ensure that KfW remains capable of operating even if it has no access to the capital market.

KfW pursues a conservative investment policy and invests exclusively in fixed-income securities with good (i.e. investment grade) credit ratings. It invests in the “Pfandbriefe” (German covered bonds), “public sector”, “bank bonds”, “supranational institutions and agencies” and “asset-backed securities” asset classes. Furthermore, a large portion of the bonds must be eligible for the European Central Bank (ECB) collateral pool, giving KfW access to the equivalent volume of ECB primary liquidity. KfW's liquidity portfolio volume totalled EUR 21.8 billion at the end of 2013 (2012: EUR 21.1 billion).

For a number of years, KfW has been assessing not only the credit rating of the securities investments it holds to secure liquidity, but also compliance with sustainability criteria by bond issuers. Sustainability is measured on the basis of environmental, social and governance (ESG) criteria. Including this issuer sustainability assessment means that particularly sustainable issuers will be overweighted in the liquidity portfolio. KfW regularly communicates the results of its sustainability assessment to the issuers of securities contained in its liquidity portfolio in order to encourage them to maintain and develop their sustainability commitment.

In addition to the ESG criteria, KfW applies exclusion criteria to non-governmental issuers based on the World Bank Group debarment list. The aim is to avoid possible negative effects in the environmental, social and governance areas, which could be caused by KfW bond investments.

As a signatory to the United Nations “Principles for Responsible Investments” (PRI) and in response to dwindling resources and climate change, KfW is committed to the further development of “sustainable investment.” This also includes KfW helping to advance the issue on the capital market. In 2013, it was active in the PRI's Corporate Fixed Income Working Group, which is dealing with the issue of how ESG criteria can effect short and long-term bond investments. The PRI published a report on its results in December 2013. KfW also hosted the PRI network meeting of German PRI signatories again in 2013.

Promoting commercial enterprises via the capital market

KfW has also promoted financing of commercial enterprises via the capital market for some years now. In its capital market-based financing, KfW invests in high-quality securitisation transactions with receivables from SMEs. KfW has included this promotional area in its Capital markets business sector since spring 2013.

In 2013 the securitisation market was characterised overall by stagnation and uncertainty regarding future regulatory treatment of securitisation products. Regardless of this, KfW provided EUR 0.7 billion to leasing companies and credit institutions via securitisation instruments in order to finance SMEs in 2013 (2012: EUR 0.8 billion).

The newly drafted regulations published at the end of the year are expected to help to calm market participants. Further positive impetus is expected from initiatives primarily driven by European institutions to improve capital market-based financing of European SMEs. These will primarily be aimed at securitisation of receivables from SMEs with the participation of national and European promotional institutions.

Special capital market-related tasks commissioned by the Federal Government

Privatisation of Deutsche Telekom and Deutsche Post driven forward

As part of the privatisation of Deutsche Telekom AG and Deutsche Post AG, and the special transactions commissioned by the Federal Government, KfW had been buying shares from the Federal Government, and selling some of them in various capital market transactions, in several stages from 1997 onward. KfW and the Federal Government have agreed that the privatisation of Deutsche Telekom and Deutsche Post will be continued for the long term. Where the market situation is deemed appropriate, KfW will be exploiting suitable capital market windows for further privatisation measures in close consultation with the Federal Government.

Shareholders in Deutsche Telekom AG were allowed for the first time in 2013 to choose to have the dividend for the past financial year paid out in cash or as shares. After delivery of new shares from the exercise of subscription rights based on their dividend claims, KfW was holding around 774.9 million shares in Deutsche Telekom AG at the end of 2013. This corresponded to 17.4% of the share capital of Deutsche Telekom AG as at 31 December 2013 (2012: 17.0%).

As part of the privatisation strategy, KfW issued an exchangeable bond for shares in Deutsche Post AG in July 2009, maturing on 30 July 2014, which entitles investors to exchange their bonds for common shares of Deutsche Post AG. KfW cancelled this exchangeable bond as at 22 July 2013 in accordance with the terms of issue. As a result of investors exercising their exchange rights, KfW's holding in Deutsche Post AG decreased to approximately 253.9 million shares in the reporting year through share delivery. This corresponded to 21.0% of the share capital of Deutsche Post AG as at 31 December 2013 (2012: 25.5%).

»» The men and women on our staff
In fulfilling our promotional mandate
and achieving business success,
there is one aspect that is particularly important to us: being a responsible and attractive employer. After all, only a strong workforce can provide the key competitive advantage for future success.

An employer committed to responsibility

Financial year 2013 was characterised by the continuation of the change projects and the modernisation programmes to restructure and update many processes and structures. This placed particular demands on KfW staff in addition to normal business activities. KfW not only pursued intensive business activities but also fully achieved the modernisation targets it set for itself in 2013. This was possible only thanks to the strong commitment of its management and staff to modernise KfW.

Personnel

As at the end of 2013, the KfW Group employed a total of 5,539 people (previous year: 5,440) at KfW, DEG and KfW IPEX-Bank, 4,365 of whom worked at the KfW parent company (previous year: 4,318).

The growth of the workforce in 2013 was thus lower than in previous years.

The proportion of KfW employees not covered by collective agreements remained constant at around two-thirds. At the end of the year, 22.7% of employees were part-time employees, a further increase on the previous year (21.3%).

The average age of employees was 42.6. This figure increased only slightly over the last years. The staff turnover rate – after adjustments for retirement – of 1.6% remained very low (previous year: 1.4%).

Restructuring at KfW

Firstly, the largest reorganisation in KfW's history was implemented in April 2013, in which more than 1,700 staff working in domestic promotion were placed into new organisational units. Secondly, KfW Development Bank started its reorganisation, a modernisation project to be concluded in 2014. The employees in both cases accepted the new challenges and demonstrated a high level of willingness and flexibility.

Change

A Change Management Office (CMO), which centrally coordinates change and personnel management activities, was created to support this comprehensive change process. The CMO supported and monitored employee migration, as well as planning and implementing the entire change communication process with the aim, for example, of providing managers with standardised information packages. It was also possible to develop change management standards, including a comprehensive change management toolbox, and to use this in consultation with managers. A modernisation barometer was introduced in the form of a regular short survey online to keep track of the effects of change management measures. Tailored measures such as dialogue-oriented business area meetings about the overall objectives behind the change, and manager workshops on strategy and change management, were developed on the basis of the survey results.

Organisational structures and processes were restructured on a broader basis as part of the modernisation projects. A large number of functions in the affected areas were either completely or partially changed as part of this measure. All functions affected in 2013 were redefined with a focus on their new purpose and core responsibilities and to reflect changing framework conditions. In order to proceed in a uniform manner throughout KfW, the bank began to examine the functions initially not affected by change in the other KfW areas as well. A concept for a new job assessment procedure was developed (description and assessment), which is to be negotiated with the employee representatives in 2014.

Modernising KfW's internal operations

The motto "Responsible Banking" does not only apply to KfW's business activities, but also to its internal operations. The modernisation of KfW is primarily aimed at ensuring professional, efficient and sustainable working methods. However, this is also to be blended with further development of the KfW culture in line with new requirements and basic conditions. The objective is to establish a culture based on openness and transparency, appreciation, trust and a cooperative willingness to perform, a culture that showcases the diversity of KfW's employees. In line with this, the Executive Board resolved to closely examine the

bank's values and guiding principles in 2014 in a broad-based process involving managers and staff. A broad consensus on modern cooperation is to be defined instead of outdated cultures and behaviour.

The main building blocks towards a comprehensive new corporate culture were laid in 2013. These include dealing with working hours, presence and performance evaluation as well as gender balance, work-life balance and systematised operational health management, which also addresses the consequences of heavier workloads and excessive availability expectations. KfW's personnel work in 2013 was characterised by addressing these issues – which included further developing the tradition that has evolved.

Work-life balance

KfW has been certified as a family-friendly company by the Hertie Foundation for over ten years, and was the first bank to receive this recognition in Germany. As part of its fourth recertification in 2013, KfW had its instruments assessed with external expertise, in particular the bank's "penetration" and the culture that actually existed at that time. In granting the renewed certification, the Hertie Foundation recognised the priority KfW gives this matter and confirmed its family-friendly stance. Thanks to KfW's evolved tradition, the bank celebrated the 40th anniversary of its in-house kindergarten in Frankfurt in 2013.

Gender-sensitive management and teamwork

The KW Executive Board launched a programme in 2012 called "Gender Balance", which actively promotes using the potential of both men and women and drawing on different individuals' skills and personality types. It combines cultural aspects and an organisational framework with targeted personnel development.

This also bundles numerous measures for gender equality and work-life balance into a comprehensive framework, some of which KfW has had in place for decades. KfW was awarded the "Deutscher Personalwirtschaftspreis" (German HR award) in 2013 for this comprehensive concept.

At the heart of the “Gender Balance” programme lies promotion of a gender-sensitive approach to management and teamwork. The concept questions long-standing behavioural patterns and initiates necessary changes in the corporate culture involving both managers and non-managerial staff by 2015. To stimulate company-wide dialogue, the Gender Balance Forum event series was created in 2013 as a platform for exchanging information across areas and hierarchy levels about developments and general conditions which will characterise day-to-day work in the future, and thus also the management and teamwork culture within KfW.

KfW's goal of achieving 33.3% female managers by mid-2015 is in line with its aim of promoting a management and teamwork culture that is gender-sensitive, thus ensuring equal opportunities for men and women. Women at managerial level totalled 28.9% at the end of 2013. The expansion of personnel development instruments and filling managerial positions with female applicants in the event of qualifications being equal should ensure a balanced proportion in the long term.

For example, a new personnel development instrument called “KfW Shadowing” was successfully piloted in 2013, providing support for employees in their decision to enter into management careers. Two thirds of all positions will be given to female applicants, as in the “KfW Mentoring” tool already established.

Health management

The world of work is changing through increasing work intensity, higher momentum and complexity of work and, in some cases, through greater standardisation. At the same time, changing demographics will result in longer employment histories and thus greater performance requirements. For KfW this means placing a greater importance on operational health management. The adoption of a comprehensive concept in 2013 reflects the responsibility that KfW assumes for its staff. As the key role for implementing the concept lies with the bank's managers, a central focal point is awareness raising and training in the areas of health-promoting leadership and workflows as well as expanding the offer of health check-ups.

Conclusion of a new staff agreement on working hours

After intensive negotiations in 2013, a new independent working hours model was introduced at the beginning of 2014 under a new pilot project running until the end of 2017 for all KfW staff not covered by collective wage agreements. This should strengthen staff self-responsibility at KfW regarding performance of work tasks and promote a more flexible work-life balance. The aim of the pilot project is to change the “overtime culture” practised to some extent into a more results-oriented culture of performance. The project systematically excludes misdirected incentives to accumulate unnecessary overtime as well as infringements of the law on working hours.

Open Space pilot project

For the renovation of the Berlin office location and the new construction of an office building in Frankfurt, KfW agreed with the responsible staff councils on the use of open plan office

areas for the first time. This will enable more flexible and economically more efficient building management in future, and will provide employees with new professionally equipped office spaces that are also attractive and contemporary worlds of work. Open Space dovetails seamlessly into KfW's new cultural orientation. It also offers staff themselves an expanded range of working options based on needs; it accelerates knowledge transfer through direct communication and supports transparent, trust-based management and teamwork. Decisions on applying the Open Space concept in other KfW office buildings will be made based on the experience of the first two buildings.

Employer branding

After extensive project work, the new KfW career website was launched in December 2013. KfW's uniqueness as an employer was strongly represented and the entire content of the career website revised and expanded, based on an innovative campaign approach. Potential applicants can now not only obtain comprehensive information about job openings and KfW as an employer; 40 testimonials also offer a look at day-to-day working life at KfW. KfW's new career website has laid the foundation for meeting current and future labour market requirements.

KfW's numerous activities for and with its staff also receive external recognition. In addition to the “Personalwirtschaftspreis” (HR award) for its Gender Balance concept, KfW was also awarded the “Careers Best Recruiter” and received the “Open Company” and “Top Company” seals of approval from Kununu.

Vocational and graduate trainee programmes remain needs-based

KfW's comprehensive modernisation process and resulting personnel consolidation are also reflected in the conservative recruitment of up-and-coming new talent. Thus, we will continue to follow the principle of needs-based training for the future. Vocational and graduate trainee programmes remain among KfW's most important staff investments.

Promoting young talent

As at the end of 2013, 140 young people were undergoing their first vocational training course (previous year: 150), of whom 87 were sandwich degree students (previous year: 93). The number of graduate trainees stood at 32 as at 31 December 2013 (previous year: 62). In the course of the year 117 students completed internships at KfW (previous year: 127). The total number of interns, sandwich students, vocational and graduate trainees was 195 as at 31 December 2013 (previous year: 238). This equated to a training rate of 4.5% (previous year: 5.5%).

Thank you

We would like to thank all managers and members of staff for the good working relationship we enjoyed in 2013.

This thank you is also extended to staff representatives, the equal opportunities officer and the representative for staff with severe disabilities, who continued to perform their demanding duties constructively during the change process in 2013.

In memoriam

We mourn the loss of our former colleagues who passed away in 2013:

Dr Ernst Bröder, former member of the KfW Executive Board

Dr Hans Koban, former Executive Board spokesman of Deutsche Ausgleichsbank, which was merged into KfW

We also mourn the deaths of the following colleagues:

Walter Diedrich

Peter Sieber

We further mourn the deaths of the following retired members of our staff:

Gertrud Bauer

Josef Buddenkotte

Dr Konrad Busse

Cornelia Church

Gerda Clausen

Anton Dühendorf

Rolf Fingas

Elisabeth Geulich

Erich Heinbach

Dr Matthias Hummel

Ruth Jeckel

Margot Kamitter

Renate Keller

Dr Heinrich Kullmann

Marlit Mathias

Annemarie Meisl

Siegfried Müller

Silja Piirainen-Hill

Jutta Sauer

Paul-Gerhard Schäfer

Konrad Schiesser

Magrit Schinkel

Wolfgang Schmücker

Gisela Schneider

Elly Schwarz

Charlotte Söhnchen

Barbara Stiller

Kurt Thum

Hannelore Trott

Irma Wagner

We will remember all of them with gratitude.

»» Financial reporting

Earnings were, as expected, lower than in 2012, when financial performance was shaped by positive extraordinary effects in net interest income and the valuation result.

Financial reporting

The complete consolidated financial statements including the group management report are included in our Financial Report, which is available for download from our website. The annual financial statements and the management report of KfW are also available for download. The auditing firm KPMG AG Wirtschaftsprüfungsgesellschaft issued an unqualified opinion on both the consolidated and the individual financial statements as of 4 March 2013.

Basic information on the KfW Group

The KfW Group consists of KfW and six consolidated subsidiaries. As the promotional bank of the Federal Republic of Germany – which owns 80% of KfW while the German Federal States own 20% – KfW is one of the world's leading promotional banks. In addition to KfW, the Group's main operating subsidiaries are KfW IPEX-Bank GmbH, which provides project and export financing, and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, which is active in promoting the private sector in developing and emerging market countries.

The KfW Group has a set of strategic objectives in place, which defines KfW's targeted medium-term positioning. KfW's primary objective is promotion – the heart of KfW's business activities – abiding by the principles of subsidiarity and sustainability. KfW focuses its promotional activities on the socially and economically important megatrends “climate change and the environment”, “globalisation and technical progress”, and “demographic change”. The primary objective is complemented by a set of secondary objectives or strict ancillary conditions that reflect profitability and risk-bearing capacity aspects.

KfW has a closely intertwined strategy and planning process. The results of the strategic planning process are summarised in the business strategy adopted by the Executive Board, which comprises planning at group and business sector level. This forms the basis for the risk strategy.

General economic environment

The global economy remained weak in 2013. The hopes for a gradual improvement in the global economic situation were thus initially dashed; it was not until the second half of the year that growth picked up slightly. Then weak momentum in the industrialised nations did not come as a surprise. In contrast, developing and emerging market countries fell short of expectations, although their growth outperformed the world as a whole.

Inflation also fell further worldwide, despite the continuing highly expansionary monetary policy of the major central banks. In the industrialised countries in particular, inflation was curbed by weak demand, the underutilisation of production capacity and high unemployment, together with stagnating or even falling commodity prices. The level of inflation in developing countries and emerging markets remained roughly the same, although in some cases clear devaluations of currencies had the effect of increasing prices.

In the US, political conflicts about the budget and the debt ceiling affected the economy. The members of the European Economic and Monetary Union left the recession behind them during 2013, although this was not enough to result in production growth for the full year. Germany remained noticeably below its growth potential for the second year in a row. The recession in the euro area, which all efforts were unable to overcome until the middle of the year, had a dampening effect on the real economy. The modest sales prospects in KfW's important home market of Europe and the general uncertainties arising from the ongoing reform processes caused companies to put off capital expenditure until well into the year despite very favourable financing conditions.

Development on the financial markets was shaped by the further easing of the euro crisis. Accordingly, the risk premiums on European transition country bonds further declined compared with German government bonds of similar maturity.

Overall, the Federal Reserve's monetary policy remained highly expansionary. The European Central Bank also continued its accommodating monetary policy and underpinned it with two further benchmark rate cuts. In light of this, there was a further decline in average annual money market rates. The longer-term maturities were subject to noticeable fluctuations.

Major financial developments for the KfW Group¹⁾

As expected, earnings were lower than in 2012, when financial performance was shaped by positive extraordinary effects in net interest income and the valuation result. Despite the high charges from the one-time substitution of federal funds totalling EUR 264 million, consolidated profit is in the range of long-term earnings potential at EUR 1,273 million (2012: EUR 2,413 million).

This result has improved KfW's capital base, thus securing its promotional capacity for the long term – also under the stricter regulatory requirements in accordance with Basel III.

¹⁾ Restatement of corresponding figures for the previous year due to the introduction of present value-based accounting of interest rate reductions, from amendments to IAS 19 "Employee Benefits" and changed reporting of certain fee components for managing financial cooperation (details can be found in the Financial Report 2013).

Earnings in 2013 were largely characterised by the following developments:

Operating result normalised in line with expectations

At EUR 2,302 million (2012: EUR 2,836 million), the Operating result before valuation (before financial support) remained at a high level and normalised in line with expectations.

This was particularly due to the development in Net interest income (before financial support). An unusual interest rate structure led to record Net interest income of EUR 3,522 million in 2012. This remained the most important source of earnings in the Group in 2013, contributing EUR 2,997 million. With stable interest margins in asset operations, the drop largely resulted from declining interest structure contributions in line with expectations. KfW continued to benefit from its excellent credit quality.

The rise in Net commission income (before financial support) to EUR 280 million (2012: EUR 248 million) largely resulted from the administration of German Financial Cooperation in the business sector Promotion of developing and transition countries, partially offset by a corresponding moderate increase in Administrative expenses.

At EUR 976 million (2012: EUR 934 million), the increase in Administrative expenses (before financial support) was still below expectations overall. This was due in particular to investments in modernising KfW, which involved charges in Personnel and Non-personnel expenses.

Charges from risk provisions for lending business lower than expected

Charges from risk provisions for lending business totalled EUR 311 million. This was below the projected standard risk costs. The actual charges were still at a moderate EUR 155 million in 2012 due to high positive one-time effects.

The risk situation in the export and project finance's maritime industries segment continued to deteriorate, resulting in further net risk provisions for imminent credit risks. Compared with 2012, however, this trend has noticeably weakened. While provisions were also increased in domestic promotion, the risk provisioning required in promotion of developing and transition countries was at a low level.

Positive developments in the securities and equity investment portfolios

The situation on the financial markets was shaped by the further easing of the euro crisis and central banks' monetary policy. The securities portfolio performed well again as a result of these improved circumstances, resulting in a contribution to earnings on the income statement of EUR 57 million (2012: EUR 77 million). In addition, positive value developments were recognised directly in equity. Negative differences to market

values in net terms decreased considerably to EUR 8 million (31 Dec. 2012: EUR 177 million) for securities and investments not carried at fair value.

The contribution to earnings of EUR 46 million (2012: EUR 135 million) from the equity investment portfolio largely resulted from the Promotion of developing and transition countries business sector.

Charges of EUR 27 million resulted from the valuation of derivatives in 2013 (2012: positive contribution to earnings of EUR 155 million). As a non-trading book institution, KfW enters into derivatives transactions exclusively to hedge risks that arise in connection with refinancing activities. Accordingly, the resulting effects on earnings are not economically meaningful, as they will offset each other in the future.

KfW's financial support increased

The promotional activities KfW deployed in domestic business at the expense of its own earnings increased to EUR 597 million (2012: EUR 560 million).

The key components of the promotional activities deployed by KfW are reductions of interest rates, which reached a volume of EUR 584 million in 2013 (2012: EUR 560 million). KfW grants additional subsidies in the form of interest rate reductions for certain promotional loans in domestic business because KfW's funding costs are not fully passed on in this case.

The accounting treatment of these promotional loans was changed in 2013 and the previous year's figures restated accordingly. The negative economic impact on KfW of interest-rate reductions granted over the entire life of the loan is now accounted for as an expense at present value at the time the commitment is made. Previously, these had affected earnings over the actual life of the loan after disbursement.

KfW also substituted EUR 264 million of federal funds from the Energy and Climate Fund. This is not reported as part of financial support because this substitution was a one-time event.

Development of net assets and financial position

Consolidated total assets fell significantly by EUR 44.7 billion to EUR 464.8 billion in 2013. This fall is primarily due to interest-rate and exchange-rate induced fair value changes in the derivatives used for hedging purposes and their recognition in hedge accounting. It is primarily for this reason that the cash collateral received has decreased, meaning that the overall liquidity held was also reduced accordingly. Despite the high volume of new business, Net loans and advances fell by EUR 4.3 billion to EUR 358.3 billion. The reason for this was high unscheduled repayments in the domestic promotional loans business.

The promotional business is primarily refinanced on the international capital markets. The volume of own issues reported under certificated liabilities was EUR 385.5 billion (31 Dec. 2012: EUR 410.9 billion). Changes in interest rates and exchange rates also had an impact here.

Development of the risk situation

Despite initial signs that basic economic conditions had stabilised, European banking markets in particular - above all Ireland, Italy and Spain - continued their battle with very large portfolios of non-performing loans. This consequently tied up a great deal of capital which could not be used to grant loans or support economic activity. Liquidity provision by the European Central Bank continued to be particularly important. Moreover, bank activities were marked by adjustments to meet the new regulatory requirements, which often involved debt reduction and a focus on core business sectors. The banking sector will also face considerable challenges in 2014. The European sovereign debt crisis and continued sluggish growth in some areas will continue to be felt.

In addition, the European Banking Authority's balance sheet assessment and stress test planned for the 128 largest and most systemically important banks (total assets of more than EUR 30 billion or more than 20% of GDP) will result in considerably higher capital requirements for some European banks. This could present serious problems for some banks if they are unable to develop a solution on their own. The situation of banks in some Eastern European countries will also only stabilise slowly and they will remain vulnerable to setbacks. The focus may also shift to other banking markets outside Europe if overall conditions should deteriorate.

German economic growth was subdued in 2013, with companies that export to Asia and America posting above-average performance. The merchant shipping industry's situation remained critical. Slight improvement in overall growth is expected for 2014. This growth forecast is based on the assumption that continued progress is made in solving the euro crisis in order to further decrease uncertainty for companies and private households. While that is likely to improve the outlook for many sectors, development in the steel industry remains at risk due to current overcapacities around the world. No sustainable recovery can yet be expected for the merchant shipping industry as a whole in 2014.

The Group has been affected by these developments due to its international promotional mandate. As in 2012, risk provisions were increased, primarily in merchant shipping. Overall, however, the burdens on the group portfolio were very easy to absorb. All recognisable risks are measured using conservative standards and are taken into account in the new business management through systematic establishment of risk guidelines. The regular calculations of risk-bearing capacity show that the Group can bear the risks assumed in the context of its mandate – even based on conservative stress scenarios.

Risk management within the KfW Group chiefly serves to preserve the group's risk-bearing capacity. For the risk-bearing capacity analysis, risk is measured and compared with risk-covering potential by means of a capital requirement calculation.

As at 31 December 2013 KfW had sufficient economic risk-bearing capacity to satisfy a solvency level of 99.99%. Any additional capital requirements for stress scenarios are covered by the unrestricted portion of the risk-covering potential, ensuring that risk-bearing capacity at a solvency level of 99.99% would be attained even if unfavourable macroeconomic conditions were to occur.

The regulatory capital ratios improved greatly against the ratios as of 31 December 2012. As at 31 December 2013, the total capital ratio taking into account consolidated comprehensive income was 22.3% (31 Dec. 2012: 20.6%), and the core capital ratio was 20.6% (31 Dec. 2012: 18.2%). The reason for the positive development is the considerable decline in the risk position, which overcompensated the negative effect from the declining risk-covering potential.

Outlook

The global economic situation brightened up somewhat in the second half of 2013, after two weak years. The recovery is expected to continue in 2014, and thus a moderate upswing in the world economy. In contrast to the recent past, growth will primarily be driven by the industrialised countries. Developing and emerging market countries face considerable structural deficits in infrastructure, labour markets, education and financial systems.

The transition to the Basel III supervisory regime will result in a decrease in the KfW Group's tier 1 and total capital ratios in 2014. However, the capital ratios can be expected to remain considerably above the legally required minimum levels. Stable overall development is anticipated for the group's economic risk-bearing capacity (99.99% solvency level). Changes in economic, political and legal conditions may also have a significant impact on capital ratios and economic risk-bearing capacity. There is thus considerable uncertainty regarding the forecast for 2014.

The KfW Group's planned new business volume for 2014 stands slightly below that of 2013, at EUR 69.4 billion (previous year: EUR 72.5 billion). This moderate quantitative consolidation in implementing the qualitative promotional goals reflects KfW's understanding of its role as subsidiary to those of other financial institutions. In order to implement the KfW Group's strategic objectives, the plans for the group's business sectors contain measures with a strategic focus on promotional quality and the orientation of business activities on the key areas of "climate change and environmental protection", "globalisation and technical progress" and "demographic change". The portion of new commitment volume dedicated to climate and environmental protection funding is expected to be 37%, which would thus slightly exceed the target set in the strategic objectives

system of around 35 %. The 47 % share of planned financing for SMEs in domestic promotion (the SME quota) is expected to be within the range of the ambition level set in the strategic objectives (around 50 %).

The focus in domestic promotional business will remain on SME financing and ensuring the future viability of companies. The international business areas of KfW aim to achieve above-average growth in the medium term in order to support the internationalisation of German companies as part of globalisation.

KfW anticipates a high funding volume in the next two years. KfW expects to see a funding volume comparable to the 2013 level of between EUR 65 billion and EUR 70 billion in financial year 2014.

Based on the expected macroeconomic conditions in its current earnings projections for the Group, KfW expects to achieve consolidated profit before IFRS effects from hedging of slightly over EUR 1 billion in financial year 2014, thus in the range of strategic projections. Just as in previous years, consolidated profit can benefit from anticipated contributions from net interest income and net commission income that are declining, though still at a high level. While a slight increase in interest margin contributions is expected, a further declining result from

interest rate and liquidity maturity transformation due to interest rate development in recent years and the forecast for future development of interest rates is also likely. Risk provisions for lending business, which are expected to be higher than 2013 based on planned standard risk costs, will have a negative effect on earnings. Planned administrative expense will rise moderately. This clearly reflects the continuation of a restrictive cost savings plan which was introduced in 2013.

KfW's business model is designed for the medium to long term. Risks and rewards for the consolidated profit may arise in particular from differences between actual and forecast interest rate development, from risk provisions that deviate from those planned as well as from temporary impacts on earnings arising from the valuation of hedge relationships under IFRS.

»» Corporate Governance

Report of the Board of Supervisory Directors



Sigmar Gabriel, Federal Ministry for Economic Affairs and Energy

Meetings of the Board of Supervisory Directors

The Board of Supervisory Directors and its committees constantly monitored the conduct of KfW's business activities and the management of its assets. It has taken the necessary decisions on the provision of financing and the conduct of other business in accordance with the conditions set forth in the KfW Law and the By-Laws. The Board of Supervisory Directors and the Executive Committee each held three meetings for this purpose in 2013, the Credit Committee four and the Audit Committee two. The Board of Supervisory Directors and its committees have reviewed their efficiency, and assessed their composition and work as positive.

At the meetings the Executive Board informed the Board of Supervisory Directors of:

- KfW's 2012 annual and consolidated financial statements,
- the business activities and current developments in KfW's individual business sectors,
- the Group's net assets, the earnings position and risk situation in general, particularly sensitive areas such as the exposure to European states and the ship portfolio, as well as any possible impacts of the low interest rate environment on KfW,
- the amendment of the KfW Law that entered into effect on 13 July 2013 and the extended future application of KWG standards at KfW as required by the KfW Regulation that was issued thereafter, the assignment to the German Federal Financial Supervisory Authority (BaFin) of supervision of compliance with these standards and KfW's activities to implement these requirements,
- the current status of the major project portfolio including the renewal of finance architecture and the further increase in client orientation as well as optimisation of the organisational structure and procedures in the lending processes,
- the successful launch of the KfW Stiftung (foundation) to bundle its corporate social responsibility (CSR) activities,
- KfW's increased European commitment in the form of consulting for European partner countries and funding for, among

others, the Spanish promotional bank Instituto de Crédito Oficial (ICO) on behalf of the German Federal Government, as well as KfW's multi-faceted commitment in the European promotional bank networks,

- KfW's revised guidelines on dealing with financing in non-transparent countries and regions, and
- KfW's risk and business strategy for 2014.

The Board of Supervisory Directors approved the provision of additional KfW funds in financial year 2013 to assume subsidies of interest and principal repayment for KfW programmes financed under the Energy and Climate Fund, in the amount of up to EUR 311 million.

In the reports on the activities of the individual business sectors, the primary focus was on the following developments:

- In regard to domestic promotion activities, the Executive Board reported on the improvements to the financing schemes in order to support the energy turnaround adopted by the Federal Government. Further reports were issued on new promotional products such as the "Private Equity for Growth, Innovation and Succession" programme (*Beteiligungskapital für Wachstum, Innovation und Nachfolge* – "WIN"), new programmes to finance day-care expansion and to improve accessibility in municipalities as well as the launch of the free-of-charge "EuroQuity" programme to arrange equity and technology partnerships for entrepreneurs, company founders and investors in Germany as well. In the move to improve customer orientation in domestic promotion, the online consultation request function – the first core function of the future online sales process for customers via their home banks to KfW – was realised with all pilot partners.
- With a view to the business sector Promotion of developing and transition countries, the Executive Board reported on the expansion of development finance based on the bank's own funds, largely qualifying as ODA (Official Development Assistance), continued commitment to financing climate and environmental protection, increased provision of risk capital, which is essential in terms of economic promotion, its focus on Africa, as well as the expansion of joint development financings with the EU.
- As for KfW IPEX-Bank GmbH, that is the Export and project finance business sector, the focus was on their role as a reliable partner to the German economy, in particular given that demand for long-term financing is becoming increasingly scarce.
- The Executive Board gave regular reports on capital market development and the refinancing status of KfW's business activities.
- The Board of Supervisory Directors was also informed of KfW Group's sustainability commitment.

The Board of Supervisory Directors was informed at the meetings as well as quarterly, in writing, of the Group's net assets, earnings position and risk situation, and of the development of its promotional business.

The Executive Board informed the Board of Supervisory Directors about the focal areas of the business strategy, including KfW's activities in Europe. During the meetings, members discussed strategic promotional areas including climate change and the environment, globalisation and technical progress, and demographic development, and approved the strategic objectives as well as the associated secondary objectives proposed by the Executive Board, which include ensuring appropriate risk-bearing capacity, profitability and efficiency of promotion. The continued very positive development of the Group's profitability has further strengthened its risk-bearing capacity. The Board of Supervisory Directors approved the business strategy and related planning for 2014.

Committees of the Board of Supervisory Directors

In exercising its responsibilities prescribed in the By-Laws, the Executive Committee discussed the compensation system for the KfW Executive Board and other Executive Board matters. It addressed real estate matters. Other issues included information on legal disputes, the KfW Stiftung and the KfW staff remuneration system.

The Credit Committee reviewed the commitments and equity investments that must be presented to it under the KfW Law and By-Laws as well as the scope for funding required by KfW for refinancing and the related swap transactions necessary for hedging, and was informed about the risk situation. It also discussed at great length any effects the European debt crisis may have on KfW, its exposure to European states and the ship portfolio.

The Audit Committee addressed the accounting process, the quarterly and risk reports as well as the annual financial statements of KfW Group 2012. It made corresponding recommendations to the Board of Supervisory Directors for the preparation of the annual financial statements 2012. It was informed about the efficiency of the risk management system, the Internal Control System (ICS), the internal audit system and the activities of the Internal Auditing department in 2012 and 2013. The Committee approved the audit plans of the Internal Auditing department for 2014. It addressed auditor independence and certain focal points of the annual audit 2013 and discussed the initial results of the annual audit 2013 in detail. The Audit Committee was informed of the progress of the activities for relevant application of provisions of the German Banking Act at KfW, other major projects and – as the Credit Committee – of the effects of the European debt crisis on KfW, its exposure to European states and the ship portfolio.

The committee chairpersons reported to the Board of Supervisory Directors regularly on the work of the committees.

Changes on the boards

At the proposal of the Executive Committee, the Board of Supervisory Directors reappointed Bernd Loewen as Executive Board member for the term from 1 July 2014 to 30 June 2019 at its meeting of 4 July 2013. It also appointed Dr Ingrid Hengster as

a regular KfW Executive Board member for the term from 1 April 2014 to 31 March 2018. Dr Hengster's predecessor, Dr Axel Nawrath, stepped down from the KfW Executive Board upon expiration of his contract as of 31 March 2014. The Board of Supervisory Directors would expressly like to thank Dr Nawrath for his committed service to KfW, particularly for the modernisation of on-lending as well as the restructuring of the lending processes in domestic lending.

In accordance with article 7 (1) no. 1 of the KfW Law, in my capacity as Federal Minister for Economic Affairs and Energy, I assumed the position of Chairman of the Board of Supervisory Directors for 2014 from my colleague Dr Wolfgang Schäuble, Federal Minister of Finance.

Ilse Aigner, Peter Altmaier, Volker Bouffier, Ingeborg Esser, Franz-Josef Möllenberg, Dirk Niebel, Dr Peter Ramsauer, Dr Philipp Rösler und Dr Guido Westerwelle stepped down from the Board of Supervisory Directors in 2013. New members of the Board of Supervisory Directors in 2013, in addition to myself, were Alexander Dobrindt, Dr Hans-Peter Friedrich, Dr Barbara Hendricks, Dr Gerd Müller and Dr Frank-Walter Steinmeier. In 2014, after the reporting period, Dr Michael Meister stepped down effective 31 January 2014, and Dr Hans-Peter Friedrich effective 17 February 2014. New members of the Board of Supervisory Directors in 2014 are Peter-Jürgen Schneider and Dr Kai H. Warnecke with effect from 1 January 2014, Robert Feiger with effect from 8 January 2014, Klaus-Peter Flosbach with effect from 1 February 2014, and Christian Schmidt with effect from 17 February 2014. The Board of Supervisory Directors would like to thank the members stepping down in 2013 and 2014 for their work.

Annual financial statements

KPMG AG, who were appointed auditors for the 2013 financial year, have audited the annual financial statements and the management report of KfW as well as the consolidated financial statements and the group management report of the KfW Group, all of which were prepared as of 31 December 2013 by the Executive Board, and issued an unqualified auditor's report thereon. The financial statements and the management report were prepared in accordance with the provisions of the German Commercial Code (HGB) and the consolidated financial statements and the group management report were prepared in accordance with International Financial Reporting Standards (IFRS) as applicable within the European Union.

At its meeting on 10 April 2014 the Board of Supervisory Directors approved the financial statements and the consolidated financial statements both prepared by the Executive board, as stipulated in Article 9 (2) of the Law Concerning KfW, following a recommendation by the Audit Committee.

Frankfurt am Main, 10 April 2014

THE BOARD OF SUPERVISORY DIRECTORS


Chairman

Corporate Governance Report

As the promotional bank of the Federal Republic of Germany, KfW has committed itself to making responsible and transparent action comprehensible. The Executive Board and the Board of Supervisory Directors of KfW recognise the Public Corporate Governance Code (*Public Corporate Governance Kodex* – “PCGK”) of the Federal Republic of Germany. A Declaration of Compliance with the recommendations of the PCGK was issued for the first time on 6 April 2011. Since then any potential deviations are disclosed and explained on an annual basis.

KfW is a public-law institution under the Law Concerning KfW (KfW Law). The Law sets out KfW's main structural features. For example, KfW does not have a shareholders' general meeting. The shareholders are represented on the Board of Supervisory Directors of KfW and exercise control and shareholder functions (e.g., approval of the financial statements and adopting resolutions concerning the By-Laws of KfW). The number of members, membership structure and duties of the Board of Supervisory Directors are set out in the KfW Law. The KfW Law also provides that the Board of Supervisory Directors is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy as well as direct control of the Federal Audit Office (*Bundesrechnungshof*). The KfW Law in conjunction with the “Regulation concerning key banking supervision standards under the German Banking Act (*Gesetz über das Kreditwesen* – “KWG”) to be declared applicable by analogy to KfW and supervision of compliance to these standards to be assigned to the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – “BaFin”) (KfW Regulation), dated 20 September 2013, further stipulates that KfW is subject to supervision by BaFin in collaboration with the Bundesbank.

Declaration of Compliance

The Executive Board and Board of Supervisory Directors of KfW hereby declare: “Since the last Declaration of Compliance issued on 15 April 2013, the recommendations of the PCGK, as adopted by the Federal Government on 1 July 2009, were and will be fulfilled to the extent applicable to KfW as a public-law institution with the exception of the following recommendations.”

D&O insurance excess

KfW concluded new D&O insurance policies for members of the Executive Board and the Board of Supervisory Directors effective 1 January 2013. In derogation of clause 3.3.2 of the PCGK, the previous policies did not include any policy excess. The new policies, however, contain the option of introducing an excess. Exercise of the option is to be decided in consultation with the Chairman of the Board of Supervisory Directors and his deputy. Derogation of clause 3.3.2 of the PCGK continues to prevail until such a decision is made.

Delegation to committees

The KfW Law sets out the size of the Board of Supervisory Directors at 37 members, as well as its structure. To ease the work of the Board of Supervisory Directors committees more specialised in the subject matter and flexible in terms of time exist. In some cases, the committees not only prepare the decisions of the Board of Supervisory Directors but also – in derogation of clause 5.1.8 of the PCGK – make final decisions. This is done for reasons of practicality and efficiency.

- The **Executive Committee** makes final decisions in the following cases: It adopts measures dealing with important legal and administrative matters and can make urgent decisions in pressing matters. The Executive Committee also accepts reports on Executive Board member conflicts of interest, in lieu of the Board of Supervisory Directors, in derogation of clause 4.4.3 of the PCGK. The Chairman of the Executive Committee approves secondary activities of Executive Board members instead of the Chairman of the Board of Supervisory Directors, in derogation of clause 4.4.4 of the PCGK.
- The **Credit Committee** makes final decisions on all financing requiring approval pursuant to the By-Laws of KfW as well as on funding. Effective 7 December 2011, the Board of Supervisory Directors also determined that the Credit Committee will be responsible for the approval of KfW's swap transactions. It is standard procedure at banks for the final decision in such matters to be made by a credit committee. It serves to accelerate and bundle committee expertise.

Distribution of responsibilities

The Executive Board has established rules of procedure for itself with the approval of the Board of Supervisory Directors, which govern cooperation at management level. These rules stipulate that the Executive Board itself, in derogation of clause 4.2.2 of the PCGK, must set out responsibilities and list them in a schedule of responsibilities without further approval of the Board of Supervisory Directors. This ensures the required flexibility for making essential changes and thus efficient division of labour.

New Executive Board member appointed

Dr Ingrid Hengster was appointed to the Executive Board at the Board of Supervisory Directors meeting on 4 July 2013. In derogation of clause 5.1.2 of the PCGK, which recommends an initial appointment of a three-year maximum, this appointment was made for four years following negotiation.

Loans to board members

Pursuant to its By-Laws, KfW may not grant individual loans to members of the Executive Board or Board of Supervisory

Directors. For equal treatment reasons, this does not apply – in derogation of clause 3.4 of the PCGK – to utilisation of promotional loans made available under the KfW programmes. Due to standardisation of lending and the principle of on-lending through applicants' own banks, there is no danger of conflicts of interests concerning programme loans. The Board of Supervisory Directors must, however, in accordance with the By-Laws, be informed of programme loans granted to members of the Board of Supervisory Directors.

Cooperation between Executive Board and Board of Supervisory Directors

The Executive Board and the Board of Supervisory Directors work closely together for the benefit of KfW. The Executive Board maintains regular contact with the Chairman and Deputy Chairman of the Board of Supervisory Directors and discusses important issues concerning management and strategy of the bank with them. The Chairman of the Board of Supervisory Directors informs the Board of Supervisory Directors of issues of major significance, and, if necessary, convenes an extraordinary meeting.

During the reporting year, the Executive Board informed the Board of Supervisory Directors about all relevant matters regarding the bank's planning, results of operations, risk assessment, risk management and financial position.

Executive Board

The Executive Board is responsible for managing the activities of KfW pursuant to the KfW Law, the KfW Regulation, the By-Laws of KfW and the procedural rules for the Executive Board.

Due to organisational changes the Executive Board members' responsibilities changed during the reporting year effective as of the reporting date of 1 April 2013 with the members holding responsibilities as follows during the year:

- Dr Ulrich Schröder – Chief Executive Officer, Management Affairs and Communication, Group Development and Economics, Internal Auditing, Compliance and Sustainability;
- Dr Günther Bräunig – Financial Markets, Capital market-related financings (until 31 March 2013, thereafter partially Financial Markets and partially Kommunal- und Privatkundenbank/Kreditinstitute), Human Resources and Legal Affairs, as well as Central Services since 1 April 2013;
- Dr Norbert Kloppenburg – International Finance (KfW Development Bank, DEG, Export and Project Finance) including KfW IPEX Bank GmbH;
- Dr Edeltraud Leibrock – Organisation and Consulting, Information Technology, Central Services (until 31 March 2013) and since 1 April 2013, Transaction Management;

- Bernd Loewen – Risk Management and Controlling, including Restructuring, Accounting, Transaction and Collateral Management (until 31 March 2013) and since 1 April 2013, Portfolio Credit Service;
- Dr Axel Nawrath – Domestic Finance (Mittelstandsbank, Kommunal- und Privatkundenbank/Kreditinstitute), Sales and since 1 April 2013, Credit Service New Business; also Environmental Issues.

Executive Board members are obliged to act in the best interests of KfW, may not consider private interests in their decisions, and are subject to a comprehensive non-competition clause during their employment with KfW. Executive Board members must inform their Board colleagues of any potential conflicts of interest and disclose to the Executive Committee any conflicts of interest that do arise without delay. This occurred in the reporting year in the case of a potential conflict of interest.

Board of Supervisory Directors

The Board of Supervisory Directors supervises and advises the Executive Board in the management of the bank.

In accordance with the KfW Law, the Board of Supervisory Directors consists of 37 members. In accordance with the law, seven Federal Ministers are members of the Board of Supervisory Directors. The Federal Minister of Finance and the Federal Minister for Economic Affairs and Energy alternate on a yearly basis as Chairman of the Board of Supervisory Directors. The Chairman of the Board of Supervisory Directors in the reporting year was Federal Minister Dr Wolfgang Schäuble. There were three female members of the Board of Supervisory Directors during the reporting year until 30 September 2013, after which there were two, and three women again since 17 December 2013.

No member of the Board of Supervisory Directors may have business or private dealings with KfW or its Executive Board which constitute a substantial or more than temporary conflict of interests. Each member of the Board of Supervisory Directors is to disclose conflicts of interest to the Board of Supervisory Directors. One member of the Board of Supervisory Directors has taken a leave of absence from his position on the board since 19 April 2013, to avoid any potential conflicts of interest; aside from this, there were no other cases of conflicting interests in the reporting year.

Four members of the Board of Supervisory Directors attended fewer than half of the board meetings in the reporting year.

Committees of the Board of Supervisory Directors

The Board of Supervisory Directors has established three committees to fulfil its monitoring responsibilities in a more efficient manner.

The **Executive Committee** is responsible for all legal and administrative matters, as well as the bank's business and corporate policy matters; it also makes urgent decisions in pressing matters.

The **Credit Committee** is responsible for handling all credit matters and the approval of KfW's fundraising and swap transactions. The **Audit Committee** is responsible for accounting and risk management issues. In particular, it deals with monitoring the accounting process, the effectiveness of the internal controlling system, the internal audit system and risk management system, auditing the annual and consolidated financial statements, the required independence of the auditor, and determining the focus areas of the audit.

The chairs of the committees report to the Board of Supervisory Directors on a regular basis. The Board of Supervisory Directors has the right to resume responsibility for tasks delegated to the committees at any time.

The Board of Supervisory Directors provides information about its work and that of its committees during the reporting year in its report. An overview of the members of the Board of Supervisory Directors and its committees is available on KfW's website.

Shareholders

The Federal Government owns 80% of KfW's share capital; the German Federal States 20%. In accordance with Article 1a of the KfW Law, the Federal Republic of Germany is liable for certain of KfW's liabilities. There is no profit distribution. The KfW Law does not stipulate a shareholders' general meeting; the Board of Supervisory Directors performs the function of a shareholders' general meeting.

Supervision

In accordance with Article 12 of the KfW Law, KfW is subject to legal supervision by the Federal Ministry of Finance in consultation with the Federal Ministry for Economic Affairs and Energy. The supervising authority has the power to take all measures necessary to ensure that KfW operates its business activities in accordance with the law, the By-Laws of KfW and other rules and regulations.

KfW is not considered a credit institution within the meaning of Section 2 (1) No. 2 of the German Banking Act and is thus generally exempt from banking supervision with the exception of a few individual regulations. It has nonetheless thus far complied with the relevant standards of the German Banking Act, particularly the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – "MaRisk") and the German Solvency Regulation (*Solvabilitätsverordnung* – "SolV").

The KfW Regulation dated 20 September 2013, issued on the basis of the newly created Article 12a of the KfW Law, declares

central banking supervision henceforth applicable by analogy to KfW. Furthermore, KfW is subject to supervision by BaFin, which, in accordance with Section 7 KWG, collaborates with the Bundesbank in this respect. The regulation will be phased into effect by 1 January 2016, meaning that the relevant application of the banking supervision regulations will become binding for KfW in several stages. Pursuant to these regulations, BaFin has been entitled since 9 October 2013 to conduct regulatory inspections.

The group subsidiaries KfW IPEX-Bank GmbH and DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG) are, on the other hand, credit institutions within the meaning of the KWG. KfW IPEX-Bank GmbH is subject to the provisions of the KWG in full, while DEG is subject with certain restrictions.

Transparency

KfW provides all important information about the bank's consolidated and annual financial statements, the quarterly and semi-annual reports and the financial calendar on its website. Investor relations activities and corporate communications also involve regular announcements on the latest company developments. The annual Corporate Governance Reports of KfW and group companies KfW IPEX-Bank GmbH and DEG including the Declaration of Compliance with the PCGK are always available on KfW's website.

Risk management

Risk management and risk control are primary responsibilities of overall bank management at KfW. Using the risk strategy, the Executive Board defines the framework for the bank's business activities regarding risk tolerance and risk-bearing capacity. This ensures that KfW fulfils its unique responsibilities with an appropriate risk profile effectively and for the long term. The bank's overall risk situation is subject to comprehensive analysis in monthly risk reports to the Executive Board. The Board of Supervisory Directors regularly receives detailed information on the bank's risk situation, at least once a quarter.

Compliance

The success of KfW Group is largely based on the confidence its shareholders, customers, business partners, employees and the general public place in its efficiency and above all in its integrity. This confidence rests not least on the implementation of and compliance with relevant statutory, supervisory and internal regulations and other relevant laws and rules. Compliance at KfW includes, in particular, measures to comply with data protection regulations and securities compliance, as well as for the prevention of money laundering, terrorist financing and fraudulent activities. There are therefore binding rules and procedures that influence the day-to-day implementation of values and the corporate culture, which are continually updated to reflect the current law as well as market requirements. Compliance's responsibilities were expanded with effect from 1 November 2013 to include coordinating among the departments for the complete fulfilment of the requirements of the KWG (as applicable under the KfW Regulation); a central function for compliance in accordance with MaRisk was also created. Regular training sessions on compliance and money laundering are held

for KfW's employees. E-learning programmes are also available in addition to the classroom seminars.

Accounting and auditing

As the supervisory authority, the Federal Ministry of Finance in consultation with the Federal Audit Office (*Bundesrechnungshof*) appointed KPMG AG Wirtschaftsprüfungsgesellschaft as auditor for financial year 2013 on 19 June 2012. The appointment was based on the proposal made by KfW's Board of Supervisory Directors on 13 June 2012. The Audit Committee prepared this recommendation and determined the focus areas of the audit with KPMG. The bank and the auditor agreed that the Chairman of the Audit Committee would be informed without delay of any potential grounds for bias or disqualification discovered during the audit that were not immediately rectified. It was furthermore agreed that the auditor would immediately inform the Audit Committee Chairman about any qualifying remarks or potential misstatements in the Declaration of Compliance with the PCGK. A declaration of auditor independence was obtained.

Efficiency review of the Board of Supervisory Directors

The Board of Supervisory Directors reviews the efficiency of its activities on a regular two-year basis. The latest self-assessment of the Board of Supervisory Directors was conducted for 2012 using a structured questionnaire. More than four-fifths of the members participated. The results of the survey showed that the members of the Board of Supervisory Directors rated the work and efficiency of their plenary body as well as that of the committees on average as good. Possible improvements were addressed by the Board of Supervisory Directors and the Executive Board.

Compensation report

The compensation report describes the basic structure of the remuneration plan for members of the Executive Board and Board of Supervisory Directors; it also discloses the remuneration of the individual members. The compensation report is an

integral part of the consolidated financial statements in the note regarding "Compensation report".

Overview of total compensation to members of the Executive Board and Board of Supervisory Directors

	2013	2012	Change
	EUR in thousands	EUR in thousands	EUR in thousands
Members of the Executive Board	3,866.8	4,139.9	-273.1
Former members of the Executive Board and their surviving dependants	3,954.8	3,890.2	64.6
Members of the Board of Supervisory Directors	172.7	178.5	-5.8
Total	7,994.3	8,208.6	-214.3

Compensation to the Executive Board

The compensation system for KfW's Executive Board is aimed at appropriately compensating members of the Executive Board for their duties and responsibilities. Executive Board contracts are drawn up based on the 1992 version of the policy for hiring executive board members at credit institutions of the Federal Government (*Grundsätze für die Anstellung der Vorstandsmitglieder bei den Kreditinstituten des Bundes*). The Federal Public Corporate Governance Code (*Public Corporate Governance Kodex des Bundes – "PCGK"*) is taken into account when drawing up contracts. The individual contracts contain adjustments.

Compensation components

Executive Board members appointed to the Executive Board prior to June 2009 receive annual salaries paid in twelve equal payments; they also receive a fixed end-of-year bonus paid annually upon approval of the financial statements by the Board of Supervisory Directors. Other Executive Board members receive

Annual compensation to the Executive Board and additions to pension provisions in 2013 and 2012, EUR in thousands¹⁾

	Salary ²⁾		Variable compensation		Other compensation		Total		Additions to pension provisions	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Dr Ulrich Schröder (Chief Executive Officer)	698.6	680.3	260.0	250.0	81.9	97.9	1,040.5	1,028.2	421.7	794.2
Dr Günther Bräunig	518.8	632.6	0.0	0.0	30.2	31.3	549.0	663.9	477.7	1,026.9
Dr Norbert Kloppenburg	518.8	668.4	0.0	0.0	42.3	52.7	561.1	721.1	479.8	1,032.7
Dr Edeltraud Leibrock	518.8	510.2	0.0	0.0	51.4	50.4	570.2	560.6	293.2	276.5
Bernd Loewen	508.1	514.8	0.0	0.0	46.0	46.0	554.1	560.8	392.0	382.6
Dr Axel Nawrath	491.5	498.3	0.0	0.0	100.4	107.0	591.9	605.3	553.8	678.5
Total	3,254.6	3,504.6	260.0	250.0	352.2	385.3	3,866.8	4,139.9	2,618.2	4,191.4

¹⁾ There may be rounding differences in the table for calculation reasons.

²⁾ Compensation paid to Dr Günther Bräunig, Dr Norbert Kloppenburg, Bernd Loewen and Dr Axel Nawrath in the year 2012 included a reward for 2011 in the amount of EUR 20 thousand each; Dr Edeltraud Leibrock received a pro rata payment of EUR 5 thousand.

the fixed end-of-year bonus paid out as part of their monthly salaries; where appropriate, the last payment of an end-of-year bonus was made in 2012 for 2011.

The compensation of the Chief Executive Officer is an exception; based on an annual agreement on objectives, he receives a variable end-of-year bonus in addition to his fixed salary. This will be at least EUR 171,456 for financial year 2013. This minimum bonus payment does not apply if KfW's net income for a financial year is insufficient to ensure allocation to the statutory reserves. The annual agreement on objectives for financial year 2013 comprises 50% quantitative and 50% qualitative objectives. A cap on the end-of-year bonus has been agreed.

The table on page 153 shows total compensation, broken down into fixed and, where applicable, variable components and other forms of compensation, as well as additions to pension provisions for the individual Board members.

Responsibilities

The Executive Committee discusses the Executive Board compensation system, including contract components, in detail and regularly reviews it. The Board of Supervisory Directors decides upon the basic structure of the Executive Board compensation system as proposed by the Executive Committee. The Board of Supervisory Directors and the Executive Committee of the Board of Supervisory Directors discussed remuneration matters on several occasions in 2013, the last of which was on 4 July 2013. At this meeting, Bernd Loewen and Dr Ingrid Hengster were appointed members of the Executive Board; Mr Loewen as of 1 July 2014 for a further five years, and Dr Hengster as of 1 April 2014 for an initial term of four years. These contracts included recommendations from the work of a body appointed within the Executive Committee for compensation matters, and adjustments to benefits for ancillary services.

Contractually agreed benefits for ancillary services

Other compensation largely comprises contractually agreed benefits for ancillary services. Executive Board members are entitled to a company car with driver services for business and personal use. Executive Board members reimburse KfW for using a company car with a driver for private purposes in accordance with applicable tax regulations. They are reimbursed for the costs of maintaining a secondary residence for business reasons under tax regulations.

Executive Board members are insured under a group accident insurance policy. Supplements are paid on health and long-term care insurance premiums. Executive Board members are covered by a directors and officers liability insurance policy, which insures them against the risks of financial loss associated with their actions in their capacity as Executive Board members and by a supplemental legal expenses insurance policy. There currently is no excess. KfW Executive Board members acting in their management capacity are also protected by a special legal expenses group policy for employees covering criminal action.

No compensation is paid to members of the Executive Board for assuming executive body functions at group companies.

As all other executives, Executive Board members may also opt to participate in the deferred compensation programme – a supplemental company pension scheme financed via tax-free salary conversion.

Moreover, the contractually agreed benefits for ancillary services contain the costs for security measures at Executive Board members' residences; these benefits are not recognised as other compensation but as Non-personnel expenses.

The contractual fringe benefits for ancillary services are subject to taxation as non-monetary benefits for Executive Board members if they cannot be granted tax-free status or such treatment is contractually agreed.

There were no loans to any members of the Executive Board in 2013.

No Executive Board member was granted or promised any benefits by a third party during the past financial year with a view to his position as a member of the KfW Executive Board.

Pension benefits and other benefits in the case of early retirement

In accordance with Article 1 (1) of the By-Laws of KfW, the appointment of an Executive Board member should not generally extend beyond reaching the legal age of retirement. The Chief Executive Officer is exempt from this provision; he will be slightly above the statutory retirement age at the end of his current period of office on 31 December 2017. After reaching 65 years of age or the legal age of retirement and expiry of their Executive Board contract, Executive Board members are entitled to claim pension payments; they may also elect to retire early after reaching 63 years of age – with the exception of Executive Board contracts concluded in 2013.

Pension commitments for Executive Board members as well as their surviving dependants are based on the 1992 version of the Federal Government's policy for hiring executive board members at credit institutions. The Federal Public Corporate Governance Code was taken into account when drawing up the Executive Board contracts.

A severance pay cap was included in the contracts of Executive Board members who have been appointed or reappointed to the Executive Board since 2010, in accordance with the recommendations of the PCGK. In other words, payments to these Executive Board member due to early termination of the Executive Board function without good cause in accordance with Section 626 of the German Civil Code (*Bürgerliches Gesetzbuch* – "BGB") should not exceed the equivalent of two years' salary or compensation including fringe benefits for the remainder of the contract, depending on which of the amounts is lower.

Executive Board contracts which were concluded before 2010 generally provided for early retirement benefits after two terms on the Board, regardless of age and even in the case that KfW did not extend the Executive Board contract. For Executive Board members reappointed to the Executive Board since 2010, any early retirement benefit entitlements were grandfathered by converting them into claims with a time limit. Moreover, Executive Board members are entitled to pension benefits if their employment relationship terminates due to permanent disability.

The full benefit entitlement totals 70% of the pensionable salary. The pensionable salary is 70% of the last salary. The benefit entitlement – with the exception of the Chief Executive Officer – normally amounts to 70% of the full entitlement for a first-time appointment and increases by 3 percentage points for every year of service completed.

The Executive Board contracts contain additional individual provisions, in particular concerning vesting of pension benefits.

Pension payments to former Executive Board members or their surviving dependants were as follows in 2013 and 2012:

Pension payments to former Executive Board members or their surviving dependants

	Head-count 2013	EUR in thou- sands 2013	Head- count 2012	EUR in thou- sands 2012
Former members of the Executive Board	18	3,164.1	19	3,205.5
Surviving dependants	11	790.7	11	684.7
Total	29	3,954.8	30	3,890.2

Provisions in the amount of EUR 55,384.2 thousand had been set up at the end of the financial year 2013 for pension obligations to former members of the Executive Board and their surviving dependants (31 Dec. 2012: EUR 54,717.9 thousand).

No loans were granted to former Executive Board members or their surviving dependants in the financial year 2013.

Compensation to members of the Board of Supervisory Directors

The amount of compensation to members of the Board of Supervisory Directors is determined by the supervisory authority in accordance with Article 5 (8) of the By-Laws of KfW. With the last revision in May 2010, compensation to members of the Federal Government who are members of the Board of Supervisory Directors pursuant to Article 7 (1) No. 1 and No. 2 of the KfW Law was set at EUR 0. Moreover, compensation for the Chairman of the Board of KfW's Supervisory Directors and his deputies was also set at EUR 0.

For the reporting year, compensation for other members of the Board of Supervisory Directors pursuant to Article 7 (1) Nos. 3-6 of the KfW Law amounted to EUR 5.1 thousand p.a.; compensation for membership on the Executive, Credit or Audit Committees, was a standard amount of EUR 0.6 thousand p.a. for each member. Committee chairs received no special compensation.

Members who join during the year receive their compensation on a pro rata basis.

A daily allowance (EUR 0.2 thousand per meeting day) is paid and travel expenses and applicable VAT are reimbursed upon request.

The following table provides details on the compensation paid to the Board of Supervisory Directors in financial year 2013: stated amounts are net amounts in EUR in thousands. Travel expenses are reimbursed upon submission of receipts and are not taken into account in the table..

Compensation to members of the Board of Supervisory Directors for the financial year 2013

No.	Name	Dates of membership	Board of Supervisory Directors membership ¹⁾	Committee membership ¹⁾	Daily allowance	Total
		2013	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1	Dr Wolfgang Schäuble	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
2	Dr Philipp Rösler	1 Jan. – 17 Dec.	0.0	0.0	0.0	0.0
3	Sigmar Gabriel	17 Dec. – 31 Dec.	0.0	0.0	0.0	0.0
4	Ilse Aigner	1 Jan. – 30 Sept.	0.0	0.0	0.0	0.0
5	Peter Altmaier	1 Jan. – 17 Dec.	0.0	0.0	0.0	0.0
6	Norbert Barthle	1 Jan. – 31 Dec.	5.1	1.2	0.4	6.7
7	Jan Bettink	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
8	Anton F. Börner	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
9	Volker Bouffier ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
10	Frank Bsirske	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
11	Jens Bullerjahn ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
12	Alexander Dobrindt	17 Dec. – 31 Dec.	0.0	0.0	0.0	0.0
13	Ingeborg Esser	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
14	Georg Fahrenschon	1 Jan. – 31 Dec.	5.1	1.8	0.0	6.9
15	Dr Hans-Peter Friedrich	30 Sept. – 31 Dec.	0.0	0.0	0.0	0.0
16	Hubertus Heil	1 Jan. – 31 Dec.	5.1	1.2	0.2	6.5
17	Dr Barbara Hendricks	17 Dec. – 31 Dec.	0.0	0.0	0.0	0.0
18	Prof. Dr Hans-Günter Henneke	1 Jan. – 31 Dec.	5.1	0.0	0.6	5.7
19	Gerhard Hofmann	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
20	Bartholomäus Kalb	1 Jan. – 31 Dec.	5.1	0.6	0.8	6.5
21	Dr Markus Kerber ³⁾	1 Jan. – 31 Dec.	1.7	0.2	0.0	1.9
22	Dr h.c. Jürgen Koppelin	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
23	Dr Gesine Löttsch	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
24	Claus Matecki	1 Jan. – 31 Dec.	5.1	0.0	0.6	5.7
25	Dr Michael Meister ⁴⁾	1 Jan. – 31 Dec.	4.9	0.6	0.6	6.1
26	Franz-Josef Möllenberg	1 Jan. – 31 Dec.	5.1	1.2	0.4	6.7
27	Dr Gerd Müller	17 Dec. – 31 Dec.	0.0	0.0	0.0	0.0
28	Dirk Niebel	1 Jan. – 17 Dec.	0.0	0.0	0.0	0.0
29	Dr Ulrich Nußbaum ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
30	Dr Peter Ramsauer	1 Jan. – 17 Dec.	0.0	0.0	0.0	0.0
31	Joachim Rukwied	1 Jan. – 31 Dec.	5.1	0.6	0.8	6.5
32	Dr Nils Schmid ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.4	6.1
33	Andreas Schmitz	1 Jan. – 31 Dec.	5.1	1.8	0.4	7.3
34	Carsten Schneider	1 Jan. – 31 Dec.	5.1	1.2	0.8	7.1
35	Holger Schwannecke	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
36	Erwin Sellering ²⁾	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
37	Dr Markus Söder ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
38	Michael Sommer	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
39	Dr Frank-Walter Steinmeier	17 Dec. – 31 Dec.	0.0	0.0	0.0	0.0
40	Dr Norbert Walter-Borjans ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
41	Dr Martin Wansleben	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
42	Dr Guido Westerwelle	1 Jan. – 17 Dec.	0.0	0.0	0.0	0.0
Total			144.3	20.6	7.8	172.7

¹⁾ The amounts had not yet been paid out as of the reporting date 31 December 2012.

²⁾ Amount determined by state law.

³⁾ This seat has been in abeyance since 19 April 2013.

⁴⁾ No compensation drawn since 16 December 2013.

Compensation to members of the Board of Supervisory Directors for the financial year 2012

No.	Name	Dates of membership	Board of Supervisory Directors membership ¹⁾	Committee membership ¹⁾	Daily allowance	Total
		2012	EUR in thousands	EUR in thousands	EUR in thousands	EUR in thousands
1	Dr Philipp Rösler	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
2	Dr Wolfgang Schäuble	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
3	Ilse Aigner	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
4	Peter Altmaier	22 May – 31 Dec.	0.0	0.0	0.0	0.0
5	Norbert Barthle	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
6	Jan Bettink	1 Jan. – 31 Dec.	5.1	1.2	0.0	6.3
7	Anton F. Börner	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
8	Volker Bouffier ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.2	5.9
9	Frank Bsirske	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
10	Helmut Dedy	1 Jan. – 31 Dec.	5.1	0.0	0.4	5.5
11	Prof. Dr Hans Heinrich Driftmann	1 Jan. – 31 Dec.	5.1	0.0	0.0	5.1
12	Ingeborg Esser	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
13	Georg Fahrenschon	27 June – 31 Dec.	2.8	1.0	0.2	4.0
14	Heinrich Haasis	1 Jan. – 27 June	2.3	0.8	0.4	3.5
15	Hubertus Heil	1 Jan. – 31 Dec.	5.1	1.2	0.4	6.7
16	Gerhard Hofmann	1 Jan. – 31 Dec.	5.1	1.2	0.2	6.5
17	Frank Horsch ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
18	Bartholomäus Kalb	1 Jan. – 31 Dec.	5.1	0.6	0.8	6.5
19	Dr Markus Kerber	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
20	Dr h.c. Jürgen Koppelin	1 Jan. – 31 Dec.	5.1	0.6	0.8	6.5
21	Karoline Linnert ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.2	5.9
22	Dr Gesine Löttsch	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
23	Claus Matecki	1 Jan. – 31 Dec.	5.1	0.0	0.6	5.7
24	Dr Michael Meister	1 Jan. – 31 Dec.	5.1	0.6	0.6	6.3
25	Franz-Josef Möllenberg	1 Jan. – 31 Dec.	5.1	1.2	0.8	7.1
26	Dirk Niebel	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
27	Dr Peter Ramsauer	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
28	Dr Norbert Röttgen	1 Jan. – 22 May	0.0	0.0	0.0	0.0
29	Joachim Rukwied	14 Nov. – 31 Dec.	0.6	0.1	0.0	0.7
30	Hanns-Eberhard Schleyer	1 Jan. – 31 Dec.	5.1	1.2	0.6	6.9
31	Dr Nils Schmid ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.4	6.1
32	Andreas Schmitz	1 Jan. – 31 Dec.	5.1	1.8	0.4	7.3
33	Carsten Schneider	1 Jan. – 31 Dec.	5.1	1.2	0.8	7.1
34	Dr Markus Söder ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
35	Michael Sommer	1 Jan. – 31 Dec.	5.1	0.6	0.0	5.7
36	Gerd Sonnleitner	1 Jan. – 14 Nov.	4.5	0.5	0.2	5.2
37	Marion Walsmann ²⁾	1 Jan. – 31 Dec.	5.1	0.0	0.2	5.3
38	Dr Norbert Walter-Borjans ²⁾	1 Jan. – 31 Dec.	5.1	0.6	0.2	5.9
39	Dr Guido Westerwelle	1 Jan. – 31 Dec.	0.0	0.0	0.0	0.0
Total			147.9	21.0	9.6	178,5

¹⁾ The amounts had not yet been paid out as of the reporting date 31 December 2012.

²⁾ Amount determined by state law.

There are no pension obligations for members of the Board of Supervisory Directors.

Members of the Board of Supervisory Directors received no compensation in the reporting year for personal services provided.

No direct loans were granted to members of the Board of Supervisory Directors in the reporting year.

Members of the Board of Supervisory Directors are also covered by a directors and officers liability insurance policy, which insures them against the risks of financial loss associated with

their actions in their capacity as Supervisory Directors and by a supplemental legal expenses insurance policy. There is currently no excess here either. KfW's Supervisory Directors acting in that capacity are also protected by a special legal expenses group policy for employees covering criminal action and by a group accident insurance policy.

Frankfurt am Main, 10 April 2014

The Executive Board

The Board of Supervisory Directors

Executive Board

Dr Ulrich Schröder (Chief Executive Officer) | **Dr Günther Bräunig** | **Dr Norbert Kloppenburg**
Dr Edeltraud Leibrock | **Bernd Loewen** | **Dr Axel Nawrath**

Directors

Dr Stefan Breuer	Klaus Klüber	Stephan Opitz
Dr Frank Czichowski	Doris Köhn	Christiane Orlowski
Michael Ebert	Dirk Kuhmann	Dr Stefan Peiss
Dr Lutz-Christian Funke	Cherifa Larabi	Dr Jürgen Schneider
Helmut Gauges	Dr Matthias Leclerc	Matthias Schwenk
Werner Genter	Dr Katrin Leonhardt	Roland Siller
Dr Volker Gross	Andreas Müller	Klaus Weirich
Ilka Homburg (provisional)	Klaus Neumann	Harriet Wirth
Detlev Kalischer	Werner Oerter	

Managing Directors of KfW IPEX-Bank GmbH

Christiane Laibach | **Christian Murach** | **Markus Scheer** | **Klaus Michalak** (Managing Director)

KfW IPEX-Bank is responsible for the international export and project finance business. Since the beginning of 2008, it has been a legally independent subsidiary of KfW which is subject to the German Banking Act (*Kreditwesengesetz* – “KWG”) and banking supervisory regulations.

Managing Directors of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Dr Michael Bornmann | **Philipp Kreutz** | **Bruno Wenn** (Chairman)

DEG was founded in 1962 and has been a wholly-owned subsidiary of KfW Group since 2001. DEG is one of the largest European development finance institutions for long-term project and corporate financing. It has been financing and structuring investments by private companies in developing and emerging market countries for more than 50 years.

Members and tasks of the Board of Supervisory Directors

The Board of Supervisory Directors supervises the conduct of KfW's business activities and the management of its assets. It approves, among other things, the annual financial statements. The Board of Supervisory Directors consists of 37 members. In the year under review, the Chairman was the Federal Minister of Finance, and the Deputy Chairman was the Federal Minister of Economics and Technology (now Federal Minister for Economic Affairs and Energy).

Sigmar Gabriel

Federal Minister for Economic Affairs and Energy
Deputy Chairman
(17 December 2013 – 31 December 2013)
Chairman
(since 1 January 2014)

Dr Wolfgang Schäuble

Federal Minister of Finance
Chairman
(1 January 2013 – 31 December 2013)
Deputy Chairman
(since 1 January 2014)

Dr Philipp Rösler

Federal Minister of Economics and Technology
Deputy Chairman
(1 January 2013 – 17 December 2013)

Ilse Aigner

Federal Minister of Food, Agriculture and Consumer Protection
(until 30 September 2013)

Peter Altmaier

Federal Minister for the Environment, Nature Conservation and Nuclear Safety
(until 17 December 2013)

Norbert Barthle

Member of the German Bundestag
Member appointed by the German Bundestag
(until 31 December 2013; since 31 January 2014)

Jan Bettink

President of the Association of German Pfandbrief Banks
Representative of the mortgage banks

Anton F. Börner

President of the Federation of German Wholesale and Foreign Trade
Representative of trade

Volker Bouffier

Minister President of the State of Hesse
Member appointed by the German Bundesrat
(until 31 December 2013)

Frank Bsirske

Chairman of ver.di – Vereinigte Dienstleistungsgewerkschaft
Representative of the trade unions

Jens Bullerjahn

Deputy Minister President
Minister of Finance of the State of Saxony-Anhalt
Member appointed by the German Bundesrat

Alexander Dobrindt

Federal Minister of Transport and Digital Infrastructure
(since 17 December 2013)

Ingeborg Esser

Member of the Executive Board Federal Association of German Housing and Real Estate Enterprises (GdW)
Representative of the housing industry
(until 31 December 2013)

Georg Fahrenschon

President of the German Savings Banks Association (DSGV)
Representative of the savings banks

Robert Feiger

Chairman of the Federal Executive Committee of the IG Bauen-Agrar-Umwelt trade union
Representative of the trade unions
(since 8 January 2014)

Klaus-Peter Flosbach

Member of the German Bundestag
Member appointed by the German Bundestag
(since 1 February 2014)

Dr Hans-Peter Friedrich

Acting Federal Minister of Food, Agriculture and Consumer Protection
(30 September 2013 – 17 December 2013)
Federal Minister of Food and Agriculture
(17 December 2013 – 17 February 2014)

Hubertus Heil

Member of the German Bundestag
Member appointed by the German Bundestag

Dr Barbara Hendricks

Federal Minister for the Environment, Nature Conservation, Building and Nuclear Safety
(since 17 December 2013)

Prof. Dr Hans-Günter Henneke

Managing Member of the Executive Committee of the Federation of German Districts (DLT)
Representative of the municipalities

Gerhard Hofmann

Member of the Board of Managing Directors of the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR)
Representative of the cooperative banks

Bartholomäus Kalb

Member of the German Bundestag
Member appointed by the German Bundestag
(until 31 December 2013; since 31 January 2014)

Dr Markus Kerber

Director General and Member of the Presidential Board of the Federation of German Industries (BDI)
Representative of industry
(mandate in abeyance since 19 April 2013)

Dr h.c. Jürgen Koppelin

Member appointed by the German Bundestag

Dr Gesine Löttsch

Member of the German Bundestag
Member appointed by the German Bundestag

Claus Matecki

Member of the Executive Board
of the Confederation of German Trade Unions
Representative of the trade unions

Dr Michael Meister

Member of the German Bundestag
Member appointed by the German Bundestag
(until 31 January 2014)

Franz-Josef Möllenberg

Chairman of the Trade Union
Nahrung-Genuss-Gaststätten
Representative of the trade unions
(until 31 December 2013)

Dr Gerd Müller

Federal Minister for Economic Cooperation
and Development
(since 17 December 2013)

Dirk Niebel

Federal Minister for Economic Cooperation
and Development
(until 17 December 2013)

Dr Ulrich Nussbaum

Senator of Finance for Berlin
Member appointed by the German Bundesrat

Dr Peter Ramsauer

Federal Minister for Transport,
Building and Urban Affairs
(until 17 December 2013)

Joachim Rukwied

President of the Deutscher Bauernverband e.V.
Representative of agriculture

Dr Nils Schmid

Minister of Finance of the State of
Baden-Württemberg
Member appointed by the German Bundesrat

Christian Schmidt

Federal Minister of Food and Agriculture
(since 17 February 2014)

Andreas Schmitz

Member of the Presidency of the Association
of German Banks
Chairman of the Management Board of HSBC
Trinkaus & Burkhardt AG
Representative of the commercial banks

Carsten Schneider

Member of the German Bundestag
Member appointed by the German Bundestag
(until 31 December 2013; since 31 January 2014)

Peter-Jürgen Schneider

Minister of Finance of the State of
Lower Saxony
(since 1 January 2014)

Holger Schwannecke

Secretary General of the Zentralverband des
Deutschen Handwerks (ZDH)
Representative of the skilled crafts

Erwin Sellering

Minister President of the State of
Mecklenburg-Vorpommern
Member appointed by the German Bundesrat

Dr Markus Söder

State Minister in the Bavarian State
Ministry of Finance
Member appointed by the German Bundesrat

Michael Sommer

Chairman of the Confederation of
German Trade Unions
Representative of the trade unions

Dr Frank-Walter Steinmeier

Federal Minister for Foreign Affairs
(since 17 December 2013)

Dr Norbert Walter-Borjans

Minister of Finance of the State of
North Rhine-Westphalia
Member appointed by the German Bundesrat

Dr Martin Wansleben

Chief Executive of the Association of German
Chambers of Commerce and Industry (DIHK)
Representative of industry

Dr Kai H. Warnecke

Managing Director Haus & Grund Germany
Representative of the housing industry
(since 1 January 2014)

Dr Guido Westerwelle

Former Federal Minister for Foreign Affairs
(until 17 December 2013)

Photographs

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