



KfW's 2008 business result marked by impacts of IKB rescue and financial market crisis

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- Financing volume reached a record volume
- Strong operating result despite increased interest rate reductions
- Charges incurred from IKB risk protection and financial market crisis led to net loss for the year of EUR 2.7 billion
- Dr Schröder: "KfW's operations continue to go strong, and the bank will carry on its promotional activities at a high level. In 2009 the main priority will be the Federal Government's economic stimulus packages." In what is becoming an increasingly difficult economic environment, KfW Bankengruppe has successfully continued its intensive promotional activities at a high level, reaching an overall volume of EUR 70.6 billion. The volume of financing commitments even rose by 3.6% to a record EUR 69.0 billion (comparative period EUR 66.6 billion). Securitisations, on the other hand, plummeted to EUR 1.6 billion (comparative period EUR 19.0 billion) as the markets for such products had dried up.

The increase in new financing business is also reflected in the KfW Group's financial statements, which were prepared according to the rules of the International Financial Reporting Standards (IFRS). Owing to intense demand for credit, the business volume increased by 8.9% to EUR 454.1 billion over 31 December 2007 (EUR 417.0 billion), while the balance sheet total even increased by 11.5% to EUR 394.8 billion.

The interest rate reductions offered by KfW were further increased by 5.8% to EUR 606 million in the 2008 financial year. Despite the increase in financing operations, the operating result before valuation of EUR 1.6 billion developed positively over the comparative period (EUR 1.4 billion), thus remaining the solid basis for sustainable continuation of the high level of promotional activities. The risk situation in the core business has turned out to be stable even though the level of promotional lending is clearly on the rise, and appropriate provisions were already made in 2008 to account for the particular risks posed by the spreading financial and economic crisis.

The Chairman of the Managing Board of KfW Bankengruppe, Dr Ulrich Schröder, said: "In spite of the accelerated cyclical downturn and an attendant critical situation in the financial markets, KfW has successfully continued its promotional activities at a high level. The balance sheet result is heavily marked by the impacts of the risk protection for IKB and by the direct and indirect consequences of the massive disruptions in the financial markets. Nevertheless, KfW's operations continue to go strong, and this provides the bank with a firm basis on which to carry on its promotional activities at a high level. As the economy continues to cool off, in 2009 we will initially be focusing on swiftly implementing the economic stimulus packages of the Federal Government, thereby responsibly fulfilling our functions as Germany's biggest promotional bank. To meet the planned funding requirements of EUR 75 billion we will use our tried and tested mix of diverse instruments."

The comprehensive income of the KfW Group was affected by extraordinarily high charges in 2008 as well. As in the previous year they were caused, firstly, by the risk protection measures for and the sale of KfW's interest in IKB, which had run into existential difficulties. Secondly, the financial market crisis which was triggered by the US subprime crisis in 2007 and further worsened in the course of the year, led to massive market disruptions by the end of 2008, resulting in negative impacts on the securities portfolio and the purely IFRS-induced earnings effects.

- In connection with the risk protection for and the sale of KfW's interest in IKB, charges totalling EUR 1.2 billion arose in 2008. The risks still remaining with KfW are limited. - In the course of the worsening financial market crisis, significant valuation losses had to be reported across nearly all investment categories despite a conservative investment policy. In KfW's portfolio of approximately EUR 43 billion, the impact on earnings resulting from this amounted to a total of

EUR 1.5 billion. - In addition, negative consequences from the Lehman Brothers insolvency and the Iceland moratorium amounted to EUR 0.7 billion. - Furthermore, the market disruptions resulted in EUR -0.6 billion in purely IFRS-induced effects in the context of the valuation of derivatives used exclusively for hedging purposes in closed risk positions. These earnings effects are economically unfounded and should therefore be disregarded in the assessment of the results. The consolidated loss reported as of 31 December 2008 despite strong income from current operations was EUR 2.7 billion (comparative period: EUR -6.2 billion). The consolidated loss adjusted for the economically unfounded charges amounted to EUR 2.1 billion.

You will find the complete Press Release on our homepage www.kfw.de

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