Annual Report 2013

Financial Statements and Management Report

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

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››› DEG at a Glance

EUR million	2013	2012
Finance		
Total financial commitments in financial year/new business	1,450	1,328
Portfolio (commitment obligation) at year end	6,783	5,958
of which trust business	60	66
Total investments of co-financed enterprises at year end/new business	8,287	12,087
Consultancy and other services		
Income from consultancy services, trust business and other services	14	14
Annual statements of accounts		
Balance sheet total	4,785	4,654
Subscribed capital	750	750
of which paid in	628	628
Reserves	1,198	1,069
Operating result before provisions for risk and valuation effects from currency	221	218
Taxes	34	31
Profit for the financial year	78	129
Withdrawal from purpose-tied reserve fund	3	3
Net income	82	132
Developmental impacts/new business		
Tax revenue p.a.	812	827
Net foreign exchange income p.a.	2,973	4,100
Newly created and secured jobs (number)	970,000	435,000
direct	240,000	164,000
indirect	730,000	271,000

››› Report by the Supervisory Board

The 2013 financial year was again marked by continuing uncertainties about developments in the Eurozone and the slow-down of growth in the major emerging market countries over the course of the year. The world economy again failed to grow in line with expectations. The global economic situation remained under pressure, not least because of – in some cases considerable – currency devaluations, especially in India, Brazil, South Africa, and Indonesia. The situation in Arab countries and North Africa has not stabilised, as is very evident from the political crisis in Egypt and the dramatic escalation in Syria. Thankfully, the upward trend in many African countries continued, with growth rates remaining high, albeit still from a small base. As in previous years, and in keeping with its development policy mandate, DEG has succeeded even in this difficult climate in positioning itself with long-term finance as a reliable partner to the private sector in developing countries. The volume of new commitments even went slightly beyond the EUR 1.4 billion originally planned, and all strategic goals were met.

Advice to and supervision of the Management Board

In the 2013 financial year, DEG's Supervisory Board concerned itself extensively with the company's situation. It advised DEG's Management Board and supervised the proper conduct of its activity, especially with respect to risk management, the internal control system, and compliance. DEG's Management Board provided the members of the Supervisory Board with regular, timely and comprehensive written and oral reports. Whenever decisions required the consent or cooperation of the Supervisory Board by law, under the Articles of Association, or rules of procedure, the Supervisory Board was no less closely involved in the decision-making process than when decisions of fundamental importance to DEG were being taken. DEG's rules and regulations comply with the Public Corporate Governance Kodex des Bundes (German Federal Public Corporate Governance Code PCGC) and meet modern governance standards.

Meetings of the Supervisory Board

During the past year, the Supervisory Board held four regular meetings. It was assisted in carrying out its work by the Audit Committee appointed from among its members, which met twice. Consultations and resolutions relating to DEG's finance business were an integral part of all the meetings of the Supervisory Board.

The Supervisory Board concentrated on setting a sustainable direction for DEG's business. In the context of the Management Board's overall strategic policy, the Supervisory Board discussed business policy for 2014 – 2018, risk strategy including annual planning for 2014, and the medium-term business outlook for 2015 – 2018.

The Supervisory Board further addressed important individual strategic issues such as DEG's involvement in emerging market countries.

The Supervisory Board made a special point of welcoming the substantial developmental impacts achieved by the investments financed by DEG and paid tribute to the fact that the new commitments made during the previous financial year had achieved the highest ever developmental rating. It further responded positively to DEG's externally validated sustainability report, which covered both the sustainability of DEG's business and DEG's operational sustainability.

The Supervisory Board also addressed important institutional topics. For instance, DEG gave notice that it was setting up a grievance mechanism that meets international standards. It is providing a gateway for complaints and inquiries that ensures a prompt and transparent response and takes advantage of third-party expertise. Under current plans, the system will include comprehensive documentation and regular reports about queries and complaints received and the extent to which they have been dealt with.

DEG's gender equality concept received the Supervisory Board's particular attention. Progress in promoting women in leadership positions was acknowledged, as were DEG's efforts to provide qualified women with special support in the role of skilled professionals. For instance, most of those participating in the Professional Development Programme during the past year were women.

The Supervisory Board's biannual self-assessment was carried out for the year 2012, based on structured questionnaires. The survey showed that the work and the efficiency of both the Supervisory Board as a whole and of its committees were rated positively by the members of the Supervisory Board.

Annual Statements of Accounts and Management Report

KPMG AG Wirtschaftsprüfungsgesellschaft of Düsseldorf has audited both the Annual Statements of Accounts, which were drawn up in accordance with statutory regulations, and the Management Report. The report on the Annual Statements of Accounts was awarded an unqualified audit certificate.

The Audit Committee appointed by the Supervisory Board reviewed and discussed the Annual Statements of Accounts along with the Management Report, based on the Auditor's Report, and recommended that the members of the Supervisory Board approve both. No objections were raised during a final detailed review by the Supervisory Board. The members of the Supervisory Board agreed with the Audit Committee's recommendations and approved the findings of the Auditor's Report and the Annual Statements of Accounts, including the Management Report.

The Supervisory Board recommended that the Shareholder's Meeting adopt the Annual Statements of Accounts for 2013 and discharge the Management Board from its liabilities.

Changes in membership of the Supervisory Board

The 17th term of DEG's Supervisory Board came to an end in June 2013, and its expiration heralded the departure of Dr. Hans-Jörg Todt, Cécile Couprie, Siegmar Mosdorf and Professor Dr. Beatrice Weder di Mauro from the Board. Grateful thanks are due to them for their valued cooperation and energetic support for the company.

On 12 March 2013, the Shareholder's Meeting appointed the Supervisory Board for the 18th term (2013–2016). The Supervisory Board was reduced from twelve members to nine. The following members were reappointed:

Gudrun Kopp
Dr. Norbert Kloppenburg
Dr. Harald Braun
Eberhard Brandes
Ernst Burgbacher
Arndt G. Kirchhoff
Hartmut Koschyk
Dr. Ulrich Schröder

Corinna Linner was newly appointed.

At its constituent meeting on 17 June 2013, the Supervisory Board again elected Gudrun Kopp as Chairwoman and Dr. Norbert Kloppenburg as First Deputy Chairman. Corinna Linner was elected as Second Deputy Chairwoman.

At the same meeting, the Supervisory Board chose an Audit Committee from among its members, consisting of Dr. Norbert Kloppenburg as Deputy Chairman, with Gudrun Kopp, Hartmut Koschyk and Corinna Linner as members. Corinna Linner was elected as Chairwoman on 2 December 2013.

In December 2013, Gudrun Kopp and Ernst Burgbacher retired from the Supervisory Board, followed by Dr. Harald Braun and Hartmut Koschyk in January 2014. The Supervisory Board would like to thank them for their valued participation over many years a well as for their active support for the company. Gudrun Kopp as Chairwoman in particular had over many years left her mark on the Board and the company, both of which she led successfully.

With the agreement of the Supervisory Board, the Shareholder has again appointed Bruno Wenn as Chairman of the Board of Management for a period of five years with effect from 1 October 2014. He has held the post since 1 October 2009.

Thanks and appreciation

The Supervisory Board would like to express its gratitude and appreciation to the Management Board for its cooperation, which has been open and marked by a high level of trust.

Special thanks and appreciation are due to DEG's staff. Thanks to their great dedication and capabilities, it has again proved possible to achieve an outstanding result for DEG.

The Supervisory Board is confident that DEG will take advantage of its opportunities and successfully strengthen and expand its position as a major European development finance institution. The Supervisory Board will continue to do all in its power to support the company in this endeavour.

Cologne, 26 March 2014

First Deputy Chairman of the Supervisory Board
Dr. Norbert Kloppenburg

››› Corporate Governance Report 2013

As a member of KfW Bankengruppe, DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH has made a commitment to act responsibly and transparently, and open up its actions to scrutiny. The Management Board and the Supervisory Board of DEG accept the principles of the German Federal Government's Public Corporate Governance Code (PCGC) on behalf of DEG. A first Declaration of Conformity in respect of compliance with the PCGC's recommendations was made on 30 March 2011. A declaration and explanation of any departures from the code has been made annually since then.

DEG has operated as a legally independent, wholly owned subsidiary of KfW since 19 June 2001. Its rules and regulations (Articles of Association, rules of procedure for the Supervisory Board and its committees, and rules of procedure for the Management Board) specify the basic features of the system via which it is managed and controlled by its corporate bodies.

Declaration of Conformity

The Management Board and the Supervisory Board of DEG make the following declaration: "Since the last declaration of conformity on 25 March 2013, the recommendations of the Federal Government's PCGC, passed on 1 July 2009, have been and are being complied with, excepting only the recommendations below."

Deductible for D&O insurance

With effect from 1 January 2013, KfW has entered into new D&O insurance contracts for members of its Executive Board and its Board of Supervisory Directors. As corporate insurance, these contracts also extend protection to the members of DEG's Management and Supervisory Boards. Whereas previous contracts – in a departure from sub-paragraph 3.3.2 of the code – did not provide for a deductible, the new ones include an option to introduce such a deductible. A decision on whether to exercise the option will be taken in consultation with the Chairman and the Deputy Chairman of KfW's Board of Supervisory Directors. Until such a decision is taken, the departure from PCGC paragraph 3.3.2 remains.

Delegation to committees

The Supervisory Board is relieved of a portion of its workload by its committees, which benefit from greater familiarity with the issues and flexibility of scheduling. Where a matter cannot be referred to the Supervisory Board in cases under article 10 section 5 no. 4 of the Articles of Association (measures and transactions of special importance), because a quick decision is required, the Executive Committee is empowered to decide in place of the Supervisory Board in an individual case under article 10 section 8 of the Articles and in departure from sub-paragraph 5.1.8 of the code. This prevents the company suffering any economic disadvantage due to an extended delay. This option did not come into play in 2013.

Responsibilities

With the agreement of the Supervisory Board and the Shareholder, the Management Board has compiled a set of procedural rules relating to cooperation in managing the business. Under these rules, the Management Board alone lays down areas of responsibility in a schedule of responsibilities with the agreement of the Shareholder, but – in a departure from paragraph 4.2.2 PCGC – without the additional agreement of the Supervisory Board. This is designed to ensure the necessary flexibility where changes are required, and hence an efficient division of labour.

Loans to members of corporate bodies

Under the rules of procedure for DEG's Supervisory Board and its committees, as well as for the Management Board, DEG is not permitted to grant individual loans to members of the Management and Supervisory Boards. However, in an effort to ensure equal treatment and in a departure from sub-paragraph 3.4 of the code, this ban does not apply to taking advantage of promotional loans provided by KfW programmes. Given the principle of delivery via the borrowers' banks, and because the granting of these loans has been standardised, these programme loans present no risk of conflicts of interest.

Cooperation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work closely together for the benefit of DEG. The Management Board, especially its Chairman, maintains regular contact with the Chairwoman of the Supervisory Board. The Management Board discusses significant issues of corporate management and strategy with the Supervisory Board. If an important cause arises, the Chairwoman or Chairman of the Supervisory Board informs the Board and calls an extraordinary meeting if necessary.

In the year under review, the Management Board provided comprehensive information to the Supervisory Board on all corporate issues of relevance to DEG, especially matters to do with profitability, the financial and net worth position, the risk situation, risk management, the internal control system, and general business development; it also discussed the strategic direction with the Supervisory Board.

Management Board

The members of the Management Board conduct DEG's business with the care of a fit and proper business person in accordance with the law, the Articles of Association, the rules of procedure for the Management Board and the decisions of the Shareholder's Meeting and the Supervisory Board.

With the agreement of the Supervisory Board, the Shareholder reappointed Bruno Wenn as Chairman of the Management Board for a further period of 5 years with effect from 1 October 2014. He has held the post since 1 October 2009.

In the year under review, the areas of responsibility changed due to an organisational revamp with effect from 1 December 2013. Over the course of the year, the members of DEG's Management Board had the following areas of responsibility:

Bruno Wenn as Chairman of the Management Board:

- Corporate Management Division,
- Regions Division 1,
- To 1 December 2013: Sectors Division 2;
  as of 1. December 2013: Sectors Division,
- Treasury,
- Internal Audit.

Dr. Michael Bornmann:

- Regions Division 2 (excluding Treasury),
- To 1 December 2013: Sectors Division 1,
- German Corporates/Special Programmes Division,
- Legal and Compliance Division.

Philipp Kreutz:

- Finance/Controlling Division
  (from 31 December 2013: Finance/Risk),
- Risk Management Division
  (from 31 December 2013: Credit Management/Analysis),
- In-house Services Division.

In accordance with the executive directors' decision of 12 November 2013, the divisions Risk Management and Finance/Controlling were renamed with effect from 31 December 2013 as Credit Management/Analysis and Finance/Risk respectively.

The members of the Management Board are committed to DEG's corporate interest, may not pursue their personal interests in decision-making, and are subject to a comprehensive non-compete obligation while acting for DEG. The members of the Management Board must immediately inform the Shareholder of any conflicts of interest arising. During the year under review, no such case occurred.

Supervisory Board

The Supervisory Board advises and monitors the Management Board as it manages DEG.

DEG has a voluntary Supervisory Board. Its membership is made up of representatives of the German Federal Government, the Shareholder, the private sector, and civilian society.

Under DEG's Articles of Association, the Supervisory Board shall have a minimum of eight and a maximum of twelve members, of whom four shall be representatives of the German Federal Government – one each from the Federal Ministry for Economic Cooperation and Development, the Federal Ministry of Finance, the Federal Foreign Office and the Federal Ministry of Economic Affairs and Energy – and two shall be representatives of KfW. The chair of the Supervisory Board rests with the representative of the Federal Ministry for Economic Cooperation and Development. In the year under review, Parliamentary State Secretary Gudrun Kopp held the office of Chairwoman until she resigned her mandate on 23 December

2013. In the year under review, the number of women on the Supervisory Board was as follows: three up to 17 June 2013; two from 18 June to 23 December 2013; and one from 24 December 2013.

At no time shall the Supervisory Board include more than two former members of the company's Management Board. Furthermore, no-one already exercising five control mandates with an enterprise being supervised by the German Federal Financial Supervisory Authority may be appointed as a member of the Supervisory Board. The members proposed by the German Federal Government shall as a rule not exercise more than three mandates in supervisory bodies at any one time. Any conflicts of interest shall be disclosed to the Supervisory Board. During the period under review, no such case occurred. During the year under review one member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board.

Committees of the Supervisory Board

With a view to achieving greater efficiency in pursuing its advisory and supervisory activities, the Supervisory Board has formed two committees.

The Executive Committee is responsible for personnel matters and the principles of corporate governance as well as – where necessary – preparing for meetings of the Supervisory Board; it also takes pressing decisions on urgent matters.

The Audit Committee is responsible for issues relating to accounting, risk management, the effectiveness of the internal control system and internal audit, as well as preparations for assigning the auditors and setting priorities for the annual audit.

The committee chairs report regularly to the Supervisory Board. The Supervisory Board is entitled to change or withdraw the competences transferred to the committees at any time.

In its report, the Supervisory Board provides information about its own work and the work of its committees during the year under review. A summary listing the members of the Supervisory Board and its committees may be found on DEG's website.

Shareholder

DEG's sole Shareholder is KfW. The Shareholder's Meeting is responsible for all matters not assigned, by law or by the Articles of Association, to another body as its exclusive responsibility; in particular for: approving the annual statements of accounts and the appropriation of the annual result or net income; determining the sum available within the company for variable remuneration components; appointing and relieving members of the Supervisory Board; discharging members of the Supervisory and Management Boards from their liability; and appointing the auditor of the annual accounts. Members of the Management Board require the prior agreement of the Shareholder's Meeting to conduct negotiations at CEO level that exceed the scope of the company's ordinary operations.

Supervision

DEG is a credit institution within the meaning of section 1 (1) of the Banking Act of the Federal Republic of Germany (KWG). The German Federal Financial Supervisory Authority (BaFin) has issued revocable exemptions to DEG as per KWG section 2 (4), which partially exempt it from the provisions of the act. However, DEG does on the whole apply the relevant standards of the Banking Act mutatis mutandis, especially the minimum requirements for risk management (MaRisk).

Public benefit

Under article 2 (1) of its Articles of Association, DEG exclusively and directly serves the public benefit purpose of promoting development cooperation as per section 52 of the German Fiscal Code (AO). It operates altruistically within the meaning of AO section 55.

Transparency

DEG makes key information about the company and its annual statements of accounts available on its website. The Communications Department also provides regular updates on current developments involving the company. The annual Corporate Governance Reports, including the Declaration of Conformity in respect of the Public Corporate Governance Code PCGC, are permanently available on DEG's and KfW's websites.

Risk management

Risk management and risk controlling are key management tasks at DEG. The Management Board draws up the risk strategy, establishing the framework for business activities in relation to risk tolerance and risk capacity. This ensures that DEG is able to maintain an acceptable risk profile while fulfilling its special tasks sustainably and over the long term. Monthly risk reports to the Management Board present a comprehensive analysis of the bank's overall risk situation. The Supervisory Board is regularly given a detailed update on the risk situation at least once per quarter.

Compliance

DEG's success depends to a significant degree on the trust which the Shareholder, clients, business partners, staff members and the public place in its efficiency and especially its integrity. This trust is rooted, in part at least, in the implementation of, and compliance with, the relevant legal and regulatory requirements and internal rules as well as other applicable laws and regulations. DEG's compliance organisation includes, in particular, provisions to ensure that data protection rules are followed, to guarantee securities compliance and prevent money laundering, the financing of terrorism and other criminal activities. Accordingly, there are binding regulations and procedures that influence day-to-day values and corporate culture; these are continuously updated to reflect the legal framework as well as market requirements. Regular training on compliance and money laundering is available to DEG employees.

Accounting and annual audit

On 26 March 2013 DEG's Shareholder appointed KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for the 2013 financial year. The Supervisory Board subsequently issued the audit mandate to KPMG on 8 July 2013 and set the priorities for the audit with the auditor. An agreement was reached with the auditor that the Chairwoman of the Supervisory Board would immediately be informed of any grounds for disqualification or bias while the audit was ongoing, unless such grounds could be rectified at once. It was additionally agreed that the auditor would instantly inform the Chairwoman of the Supervisory Board of any qualified remarks and potential misstatements in the Declaration of Compliance with the PCGC. A declaration of the auditor's independence was obtained.

Efficiency review of the Supervisory Board

The Supervisory Board reviews the efficiency of its activities regularly every two years. The Supervisory Board's most recent self-evaluation for the 2012 financial year was conducted using structured questionnaires. At the time, the Supervisory Board numbered twelve members, ten of whom took part. The survey showed that the members of the Supervisory Board rate the work and efficiency of both the Board as a whole and its committees as "good" on average. Both the Supervisory Board and the Management Board have addressed opportunities for improvement.

COMPENSATION REPORT

The compensation report describes the basic structure of the remuneration system for the Management Board and the Supervisory Board and discloses the individual remuneration for members of both boards. The compensation report is part of the appendix to the annual statements of accounts.

Remuneration of the Management Board

The remuneration system for DEG's Management Board is designed to provide appropriate compensation for Board members in accordance with their remit and areas of responsibility, taking into account their performance and the company's success.

Remuneration components

On 25 March 2013 DEG's Supervisory Board voted to retain without change the remuneration system for DEG's Management Board agreed on 18 March 2010. This system meets PCGC rules on variable remuneration components and includes a balanced mix of short and medium-term incentives. For instance, only half of performance-related management bonuses, as measured by the meeting of targets, is immediately paid to the Management Board; the other half only constitutes a provisional claim and is paid out from a "bonus account" in equal instalments over the following three years, provided business performance has not declined substantially. If the agreed profitability target is not met in subsequent years, payments from the bonus account shall be subject to a penalty.

Compensation for the Management Board and members of the Supervisory Board

EUR thousand	2013	2012	Change
Management Board	1,350	1,225	125
Previous members of the Management Board & surviving dependants	744	729	15
Members of the Supervisory Board	11	13	-2
Total	**2,105**	**1,967**	**138**

The summary on page 12 shows total compensation broken down by fixed and variable components and benefits in kind. It also shows transfers to pension provision for individual members of the Management Board as well as the balance of their bonus accounts.

Responsibility

The Shareholder discusses the remuneration system for the Management Board, including contractual elements, and reviews it regularly. The Shareholder agrees the remuneration system following consultation with the Supervisory Board. The adequacy of the level of remuneration was most recently reviewed in March 2013.

Benefits in kind

Benefits in kind primarily include contractual fringe benefits. Members of the Management Board are entitled to a company car and driver for both business and personal use. In new contracts, the entitlement to a driver is no longer part of the contractual agreement. Any costs incurred as a result of personal use of the company car and driver are met by the members of the Management Board as per current tax regulations. If a second residence is required for business purposes, the costs of running a second household are reimbursed as per tax regulations.

Members of the Management Board are insured under a group accident insurance policy. Health and long-term care insurance are subsidised. In respect of the risks associated with their management activities on the governing bodies, members of the Management Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance. Currently, no deductible has been agreed. Members of DEG's Management Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

Like all senior executives, members of the Management Board are entitled to participate in the Deferred Compensation Scheme, a supplementary company pension plan via deferred compensation payments deducted from salary.

Contractual fringe benefits also include the costs of security measures carried out at residential properties occupied by members of the Management Board; the provision of this security is accounted for under operating charges rather than as benefits in kind.

Where they cannot be granted on a tax free basis, contractual fringe benefits are subject to taxation as non-cash benefits, with any tax payable by the members of the Management Board. In 2013 no member of the Management Board was in receipt of a loan from DEG or KfW.

No member of the Management Board received benefits, or a pledge to that effect, from a third party in respect of his activities as a member of DEG's Management Board.

Annual compensation of members of the Management Board and transfers to pension provision for 2012 and 2013

EUR thousand		Salary	Variable compensation	Benefits in kind[1]	**Total**	Bonus account	Transfers to pension provision
Bruno Wenn (Chairman)	2013	340.7	66.9	19.1	**426.7**	80.2	252.4
	2012	327.0	53.6	13.4	**394.0**	67.2	164.0
Dr. Michael Bornmann	2013	340.7	67.5	28.8	**437.0**	80.8	285.9
	2012	327.0	53.1	24.5	**404.6**	66.3	119.8
Philipp Kreutz	2013	340.7	66.7	45.6[2]	**453.0**	80.0	350.2
	2012	327.0	53.6	12.3	**392.9**	67.2	41.3
Total[1]	**2013**	**1,022.1**	**201.1**	**93.5**	**1,316.7**	**241.0**	**888.5**
	2012	**981.0**	**160.3**	**50.2**	**1,191.5**	**200.7**	**325.1**

[1] In a departure from the figures in the appendix, this table does not include the employer's contribution as per the Social Security Act. The previous year's figures have been amended accordingly to provide a better basis for comparison. The total for 2013 is EUR 32.9 thousand (previous year EUR 32.9 thousand.

[2] A one-off payment was made to Mr. Kreutz in recognition of his 25 years of service to the company. This was made up of one month's salary and a single payment of EUR 250.

Retirement pensions for former members of the Management Board or surviving dependants

	Number 2013	EUR thousand 2013	Number 2012	EUR thousand 2012
Former members of the Management Board	5	538.9	5	**524.2**
Surviving dependants	3	204.8	3	**205.2**
Total	**8**	**743.7**	**8**	**729.4**

Entitlement to a retirement pension and other benefits in case of early retirement or departure

Under Article 5 section 1 of the Articles of Association of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH the appointment of a member of the Management Board shall not extend beyond attainment of the statutory retirement age. After reaching the age of 65 or statutory retirement age respectively, and following expiry of their contract of employment as executive directors, members of the Management Board are entitled to pension payments. At their own request, they may take early retirement once they have reached the age of 63. If the employment is not renewed, and no important reason as per Article 626 of the German Civil Code applies to the person of the member of the Management Board, he or she is entitled to agree a transitional allowance for the period until pension payments become due. Furthermore, members of the Management Board are also entitled to pension payments if their service ends due to permanent invalidity.

Pension commitments for members of the Management Board and surviving dependants are based on the principles governing the employment of board members at German federal credit institutions (1992 version). The provisions of PCGC are taken into account in drawing up contracts of employment for executive directors.

Where members of the Management Board were appointed or re-appointed as executive directors after 2011, a cap on any severance package has been included in their contracts of employment in keeping with PCGC recommendations. Any pay-off to a member of the Management Board due to early termination of his or her activities as executive director without important cause as per Article 626 of the German Civil Code, will accordingly be limited to double annual salary or the compensation, including fringe benefits, due for the remaining period of his or her contract, whichever is lower.

In general, full retirement pension entitlement is equivalent to 49% of annual fixed remuneration. At initial appointment, the retirement pension entitlement routinely amounts to 70% of the full entitlement and rises over a period of ten years by 3% for every completed year of service.

If the employment contract of a member of the Management Board is terminated, or not renewed, due to a significant reason as per Article 626 of the German Civil Code, any pension entitlements are void in keeping with the principles developed by employment contract case law.

Pension payments to former members of the Management Board and surviving dependants amounted to EUR 729.5 thousand in 2012 and EUR 743.7 thousand in 2013.

EUR 72.7 thousand were transferred in respect of pension obligations towards former members of the Management Board and their surviving dependants as at the end of the financial year (prev. year: EUR 40.7 thousand).

No loans were provided to former members of the Management Board or their surviving dependants in the 2013 financial year.

Compensation for the Supervisory Board

Members of the Supervisory Board receive appropriate compensation, the level of which is set by the Shareholder‘s Meeting as per article 13 (1) of DEG’s Articles of Association, taking account of the company‘s character as an institution serving the public benefit.

In the year under review, compensation for ordinary members amounted to EUR 2,045. Chairmanship of the Supervisory Board attracts compensation in the sum of EUR 3,323, while the two Deputy Chairmen receive EUR 2,556 each. Members of the Audit Committee each receive annual compensation of EUR 511, provided their fixed remuneration does not exceed EUR 2,045. Membership of the Executive Committee does not attract separate compensation, nor does chairing the committees.

Where membership only covers part of a year, remuneration is paid pro rata.

An attendance fee (EUR 31 per day of attendance), a daily allowance (EUR 12 per day of attendance) and an accommodation allowance (EUR 20) are paid on request. Any travel expenses incurred and any value-added tax payable are reimbursed.

As of 1 July 2011 representatives of KfW serving on DEG's Supervisory Board have declined to claim remuneration and attendance fees. This is in accordance with a fundamental and open-ended decision by the Supervisory Board of KfW.

The tables on p. 15 provide details of the Supervisory Board's remuneration for the 2012 and 2013 financial years; the sums shown are EUR net and have all been paid. Travel expenses and other miscellaneous expenses were reimbursed upon presentation of receipts and are not included in the table.

There are no pension obligations towards members of the Supervisory Board.

In the year under review, members of the Supervisory Board received no remuneration for services provided personally.

In respect of the risks associated with their activities as officers of the Supervisory Board, members of the Supervisory Board are insured under a policy that covers their liability for monetary damages (D&O insurance) and a supplementary policy covering them for monetary damages and legal expenses. These insurance policies are designed as group insurance. Currently, no deductible has been agreed. Members of the Supervisory Board are also covered in the exercise of their duties by a special group insurance policy for employees that meets any legal expenses incurred as a result of criminal prosecution.

No loans were made to members of the Supervisory Board during the year under review.

Cologne, 26 March 2014

Management Board Supervisory Board

Compensation of members of the Supervisory Board for the 2012 and 2013 financial years

EUR

No.	Name	Period of membership 2013	Supervisory Board membership	Committee member	Daily allowance and atten- dance fee	Total
1.	Gudrun Kopp[1)]	1 Jan–31 Dec	-	-	-	**0**
2.	Dr. Norbert Kloppenburg[1)]	1 Jan–31 Dec	-	-	-	**0**
3.	Dr. Hans-Jörg Todt	1 Jan–16 Jun	1,169	-	62	**1,231**
4.	Dr. Harald Braun[2)]	1 Jan–31 Dec	2,045	-	86	**2,131**
5.	Eberhard Brandes[3)]	1 Jan–31 Dec	2,045	-	-	**2,045**
6.	Ernst Burgbacher[1)]	1 Jan–17 Dec	-	-	-	**0**
7.	Cécile Couprie[1)]	1 Jan–16 Jun	-	-	-	**0**
8.	Arndt G. Kirchhoff	1 Jan–31 Dec	2,045	-	129	**2,174**
9.	Hartmut Koschyk[1)]	1 Jan–31 Dec	-	-	-	**0**
10.	Siegmar Mosdorf	1 Jan–16 Jun	936	-	43	**979**
11.	Dr. Ulrich Schröder[1)]	1 Jan–31 Dec	-	-	-	**0**
12.	Prof. Dr. Beatrice Weder di Mauro	1 Jan–16 Jun	936	-	-	**936**
13.	Corinna Linner	17 Jun–31 Dec	1,387	-	136	**1,523**
Total			**10,563**	**0**	**456**	**11,019**

EUR

No.	Name	Period of membership 2012	Supervisory Board membership	Committee member	Daily allowance and atten- dance fee	Total
1.	Gudrun Kopp[1)]	1 Jan–31 Dec	-	-	-	**0**
2.	Dr. Norbert Kloppenburg[1)]	1 Jan–31 Dec	-	-	-	**0**
3.	Dr. Hans-Jörg Todt	1 Jan–31 Dec	2,556	-	179	**2,735**
4.	Dr. Harald Braun[2)]	1 Jan–31 Dec	2,045	-	62	**2,107**
5.	Eberhard Brandes[3)]	1 Jan–31 Dec	2,045	-	-	**2,045**
6.	Ernst Burgbacher[1)]	1 Jan–17 Dec	-	-	-	**0**
7.	Cécile Couprie[1)]	1 Jan–31 Dec	-	-	-	**0**
8.	Arndt G. Kirchhoff	1 Jan–31 Dec	2,045	-	43	**2,088**
9.	Hartmut Koschyk[1)]	1 Jan–31 Dec	-	-	-	**0**
10.	Siegmar Mosdorf	1 Jan–31 Dec	2,045	-	172	**2,217**
11.	Dr. Ulrich Schröder[1)]	1 Jan–31 Dec	-	-	-	**0**
12.	Prof. Dr. Beatrice Weder di Mauro	1 Jan–31 Dec	2,045	-	-	**2,045**
Total			**12,781**	**0**	**456**	**13,237**

1) Remuneration not claimed
2) The German federal regulation on secondary employment applies to this sum
3) Remuneration donated to WWF

››› Management Report for 2013

CORPORATE ESSENTIALS

Business model

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, draws on entrepreneurial development co-operation to promote the private sector in developing and emerging market countries (partner countries). Work and an income are essential prerequisites if people's living conditions are to be improved and poverty overcome. The most important driver in achieving this is entrepreneurial initiative. By far the most jobs are created in the private sector.

That is why DEG finances economically and developmentally sustainable investment schemes by private sector enterprises with loans and guarantees as well as with risk capital in the form of participating interests and loans with equity features. It addresses primarily small and medium-sized enterprises.

As a pioneer investor, DEG enters future markets in Africa and other regions. It demonstrates that entrepreneurial commitment is possible even in difficult conditions and boosts the leverage effect of its development activities by mobilising extra private-sector capital.

Sustainable entrepreneurial success is not only determined by economic, but also by ecological and social factors. That is why DEG promotes high ecological and social standards and advises the enterprises it co-finances on how to implement them. Schemes of immediate benefit to climate and environment are a focus of DEG's activities. German enterprises can make an important contribution to development by becoming involved, and they benefit from major opportunities in developing and emerging market countries. That is why DEG finances and supports the activities of German medium-sized enterprises in these countries.

As a development institution with a development policy mandate, DEG operates on the subsidiarity principle. It provides finance where the market fails to offer finance to enterprises at an adequate level, or indeed at all.

DEG thinks and acts like an entrepreneur within the scope of its activities. That includes generating risk-appropriate earnings. In order to increase its equity capital base continuously, any surpluses it generates are transferred to reserves. This forms a crucial foundation of DEG's promotional business and its expansion.

With promotional programmes like develoPPP.de on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), DEG additionally supports measures by private sector enterprises that are beneficial in environmental policy terms. A mix of public funds and funds provided by the enterprises is used. DEG also carries out complementary measures using its own funds in order to enhance developmental effects and structure schemes to ensure they meet the requirements for co-financing by finance institutes.

As a specialist for promotion of the private sector in developing and emerging market countries, DEG is one of the mainstays of KfW Bankengruppe's involvement in foreign countries. Together with KfW Entwicklungsbank and KfW IPEX-Bank GmbH, it shapes KfW's range of international finance.

As one of the leading European development finance institutes, DEG works closely with other development finance providers with the aim of jointly achieving greater efficiency and visibility and making a greater impact. Cooperation with the members of the European Development Finance Institutions (EDFI) is a special priority. Given the growing importance of entrepreneurial development cooperation, the association is committed to enhancing its visibility internationally, intensifying cooperation in the context of the European Union, and further expanding European finance partnerships.

Comprehensive knowledge of the economic and political conditions in partner countries, close links to clients, and a permanent local presence are necessary if the development policy mandate is to be effectively fulfilled. To achieve this, DEG maintains a presence with representative offices in thirteen locations in Africa, Asia, Latin America and Eastern Europe. It also has the option of sharing the use of KfW's 70+ representative offices.

Sustainability

An important condition of DEG's involvement is that – in addition to being economically sustainable – any investment scheme it promotes must be environmentally and socially sound; co-financed enterprises must agree to demonstrate their commitment in this respect. Promoting investment schemes in developing countries offers considerable opportunities to improve the environmental and social situation locally, but there may also be significant inherent risks. That is why the evaluation of environmental and social risks is part and parcel of the overall risk assessment carried out by DEG. For every scheme, it verifies whether human rights are being respected, fair working conditions offered, and activities carried out in an environmentally responsible way. Problematic business activities such as arms manufacturing, tobacco growing, and the conversion of forests worthy of protection are not eligible for DEG finance.

For all the proposals to which DEG committed finance in 2013, the enterprises concerned entered into a contractual commitment to comply with national regulations and also to meet international environmental and social standards. This includes the IFC performance standards (revised version 2012) as environmental and social standards and the core labour standards set up by the International Labor Organization (ILO).

In 2013 DEG took on an important role in schemes with a potentially higher environmental and social risk by agreeing environmental and social action plans. Its aim was to improve the situation in the enterprises in question while also promoting the spread of international standards in its partner countries. DEG closely supported the enterprises as they implemented the requirements set down in the action plans and worked with them to solve any issues arising. DEG tracks the agreed activities and steps for the entire duration.

Environmentally responsible action also extends to DEG's own operations. In addition to the health and safety of its staff, the sparing use of resources is a priority. DEG's headquarters building recorded lower consumption figures for 2013 than for 2012, and paper consumption also fell. As part of the KfW Bankengruppe's policy of maintaining a climate neutral rating, all DEG's CO_2 emissions are offset by the purchase and retirement of emission credits.

In 2013 KfW Bankengruppe, including DEG, was assessed by the three sustainability ratings agencies Sustainalytics, imug and oekom research and was able to improve or maintain its good rating. Sustainalytics ranked KfW second of a total of 72 international and German privately held financial institutions; imug awarded it the best ranking of all German banks and development banks; and oekom research ranked the banking group in its "prime segment".

Personnel

At 2013 year end DEG retained 499 employees (2012: 477). DEG additionally employs three executive directors. Staff numbers broke down into 342 staff outside regular pay scales – 51 of whom are senior executives –, 142 staff on regular pay scales and 15 apprentices. This included 77 part-time employees (2012: 70). 263 members of staff (52.4%) were female (2012: 51.5%). The average age was 42.5 years (2012: 42.4). The proportion of severely disabled people was 2.9% (2012: 3.6%). 20 members of staff were employed in DEG's representative offices along with 41 local experts.

DEG's highly qualified employees are committed to fulfilling their tasks and meeting DEG's targets. In doing so, they make a significant contribution to the success of the business. DEG benefits from their diverse academic backgrounds, professional careers and cultural heritage. Knowledge and experience of banking are just as useful as a detailed focus on specific countries or industries and a strong internationalist bent linked to development policy expertise.

In order to ensure DEG's future viability in staff terms, the business has developed a strategy-based competence model that serves as a common thread running through a range of different staff development tools. The newly devised talent management system is designed to develop staff potential in keeping with DEG's strategic needs.

This "Professional Development Program" enables DEG's skilled specialists to carry out a comprehensive assessment of their current level in their profession and then achieve targeted development. Of the 16 places available in 2013, ten were filled by women, including part-time employees.

Equality, diversity and the work/family balance are key elements of DEG's human resources policy. In 2012 DEG completed the Hertie Foundation's "Work and Family Audit" programme and achieved certification for the first time. As a result, DEG is now committed to a range of measures designed to help staff reconcile the demands of work and family. That is why the teleworking option was extended in 2013.

DEG would like to further boost the proportion of women in leadership positions. In 2013 three leadership positions were newly filled with women. Just under 30% of DEG's senior executives are now women (2012: 26%).

The existing extensive training and development programme, which includes a wide range of subject-specific and generic modules, was expanded in 2013 by adding more qualification instruments and programmes. Senior executives and specialists are now able to gain extensive additional qualifications. DEG also takes advantage of networks at KfW and within the context of EDFI to provide qualifications. In the year under review, DEG invested EUR 1.0 million in professional development and qualification measures (2012: EUR 1.2 million).

DEG offers a trainee programme for junior employees which provided places for three female and three male university graduates in 2013. It continues to give strong support to initial vocational training. In 2013 five apprentices began their training at DEG: two female management assistants in office communications with an additional qualification in banking administration and three male cooks. In December 2013 DEG was named as "Training Company of the Month" by Cologne's Chamber of Industry and Commerce. DEG again supported students at Cologne University with scholarships in 2013. Starting in the winter semester of 2013/14, it has provided funding for three scholarships for disabled or socially disadvantaged students as well as offering six national scholarships.

Reviews of the corporate agreements on "Salary determination and remuneration at DEG" and "Staff appraisal at DEG" were carried out in 2013 and adopted by the corporate partners. These agreements regulate a new remuneration system, parts of which already came into force in the 2013 financial year.

At the beginning of each new financial year, DEG enters into a personal goal agreement with all members of staff. The goals specified in the agreement are partly based on DEG's strategic targets.

The main element of staff remuneration remains a fixed salary consisting of thirteen monthly payments for staff outside regular pay scales. They receive a target bonus which serves as a benchmark for variable, performance and success-related remuneration, which is payable if all performance parameters have been achieved by both the business and the member of staff. The target bonus is set as an appropriate proportion of the annual basic salary, and the effective bonus is then paid in the following financial year. The maximum possible amount is twice the target bonus.

Staff on regular pay scales will in future receive an annual salary equal to 13.5 monthly salaries. In addition, they may receive variable and performance-related compensation depending on the success of the business and on employee performance parameters. The members of DEG's Management Board receive a bonus that depends on achieving defined quantitative and qualitative targets. 50% of the bonus is paid out in stages over several years.

The table below includes the information required under section 7, sub-section 2, No. 2 of the German Regulation on Compensation by Financial Institutions.

DEG's social benefits include employer contributions to various corporate pension schemes, group accident insurance, and the granting of loans. There are also recuperation allowances, special benefits in case of illness and emergencies, and a childcare allowance. DEG also provides its employees with a free pass for travel on public transport, partly for environmental reasons. Over the past twelve months, DEG has additionally expanded its corporate health management system and offers

Remuneration 2013

	Number of employees (number of recipients of variable remuneration)	Total fixed salaries (gross) in EUR million	Management bonus for 2013 (for performance in 2012) in EUR million	Bonus 2013 (for performance in 2012) in EUR million
Staff on regular pay scale	174[1] (116 recipients)	6.6	-	0.2
Staff outside regular pay scale	351[1] (319 recipients)	27.5	4.6	-
Executive directors	3	1.0	0.2	-

[1] The number of employees includes all persons active in 2013, all who left over the course of the year, and all who were entitled to a part of the management bonus for 2012. Recipients takes into account all members of staff who received variable remuneration in 2013 due to having achieved the agreed performance targets.

a wide range of preventative health measures, e.g. courses on becoming more active and on relaxation, corporate sports groups, etc. In November 2013 it held a health week with a full programme of short talks and taster sessions.

The Management Board would like to express its gratitude to all members of staff for their energetic, dedicated and highly motivated service. They made a significant contribution to DEG's outstanding success in fulfilling its mandate and meeting its ambitious corporate goals. Thanks are also due to the employees' representative bodies – the Staff Council and the Economic Committee – as well as the Senior Staff Council for their cooperation, which has again proved loyal and extremely constructive.

ECONOMIC REPORT

Business environment

In 2013, growth in the world economy was initially subdued. Ultimately, however, it reached same level as the previous year with a rise of 2.4%.

In the group of emerging market and developing countries, economic activity slowed down at times. In some countries this was due to the influence of factors such as domestic economic problems, as well as to a drop in demand from the industrialised countries; there was also a substantial capital drain due to a previously announced change in US monetary policy.

Nevertheless, by comparison to the rest of the world, the emerging market and developing countries remained pillars of growth in 2013, with an average rise of just under 5%. In Asia and Latin America, the economic trend was roughly the same as the previous year, while Africa again proved more dynamic in 2013.

In keeping with its mandate, DEG as a development finance provider becomes involved at a complementary level where the market fails to provide private sector enterprises with the required long-term finance altogether, or only provides inadequate levels.

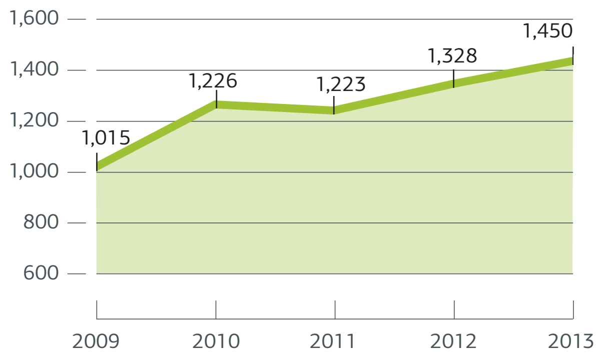
In 2013, this capital remained out of reach for many enterprises in the partner countries, since commercial banks generally refuse to accept the higher risks. Here, DEG was again able to position itself as a finance partner for these enterprises and meet the demand with appropriate offerings. In cooperation with other European development banks, it was able to provide even larger volumes of finance. (Source: Global Economic Prospects, World Bank, January 2014).

Business development

In 2013, DEG's finance and arrangement services were once again much in demand.

DEG was able to continue expanding its promotional business in the 2013 financial year as planned. It achieved a new record with financial commitments (a significant performance indicator) of EUR 1,450.1 million for 109 investment proposals (2012: EUR 1,328.0 million). The 2013 commitments will enable entrepreneurial investments with a total volume of EUR 8,287.4 million (2012: EUR 12,087.0 million). The previous year's high figure was due to individual large-volume infrastructure investments .

Development of annual financial commitments
EUR million



The commitment obligation (total of commitments paid out and new commitments on own account) rose in 2013 from EUR 5,892.0 million to EUR 6,166.4 million. It was distributed across 716 projects in 78 partner countries and displayed a stable risk structure. Due above all to the weaker development of the US dollar, the commitment obligation remained slightly below the level planned (EUR 6,322.0 million). With EUR 1,114.3 million, disbursements (own business) slightly exceeded the previous year's EUR 1,093.6 million

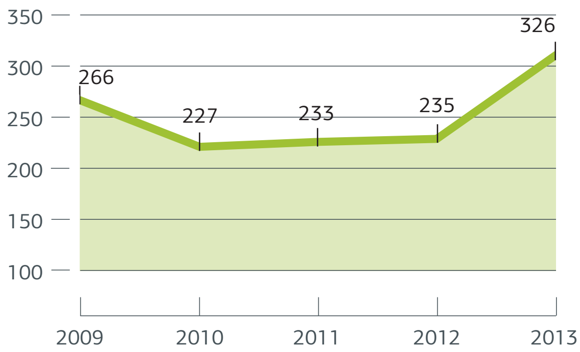
The structural targets for new business – finance for small and medium-size enterprises (SMEs), risk capital, Africa and other future markets, climate and environmental protection as well as finance for German enterprises – were met and in some cases substantially exceeded, excepting only the last, which was not quite reached.

EUR 793.9 million of newly committed finance went to small and medium-size enterprises (SMEs) and "mittelstand" in 2013 (2012: EUR 465.4 million).

Risk capital finance – participating interests and loans with equity features – accounted for a commitment volume of EUR 572.2 million in 2013, a new record well above the previous year's already high level (2012: EUR 506.4 million).

For investments in Africa and other future markets, finance in the amount of EUR 630.4 million was committed in 2013. Of this, EUR 325.7 million were intended for Africa – a substantial increase compared to the previous year and the result of a large number of commitments in the financial and infrastructure sectors (2012: EUR 234.7 million).

New financial commitments for investments in Africa
EUR million



EUR 447.7 million in new commitments were allocated to investments in climate protection (2012: EUR 384.2 million). The increase was mainly due to a rise in commitments for renewable energy proposals. In all, EUR 649.0 million in new commitments were for schemes supporting climate protection, adaptation to climate change, and environmental protection (2012: EUR 564.5 million).

In 2013 DEG made EUR 152.3 million available to German enterprises investing in emerging market and developing countries (2012: EUR 182.3 million). The very high commitment volume in 2012 was partly due to one scheme involving a high volume of finance. In 2013 the commitments went to 14 enterprises for investments in manufacturing, renewable energy schemes and agricultural production in China, Chile and Uruguay and elsewhere. In all, DEG reached more than 100 German enterprises with its finance and programmes in 2013.

Financial commitments for 2013 were spread across 49 countries (2012: 40). Among the least developed countries (LDC) in which DEG made funds available were Bangladesh, Zambia, Senegal and Tanzania.

By continent, the lion's share of commitments for 2013 went to schemes in Asia with EUR 492.0 million (2012: EUR 388.4 million). Latin America came second with EUR 401.1 million (2012: EUR 496.6 million). The commitments for Africa of EUR 325.7 million in total (2012: 234.7 million), were all destined for Sub-Saharan Africa (2012: EUR 204.1 million). The Europe/Caucasus region received total commitments of EUR 170.6 million (2012: EUR 205.0 million), of which EUR 145.2 million were allocated to Eastern and South-Eastern Europe (2012: EUR 187.7 million). Three supra-regional schemes accounted for EUR 60.7 million (2012: EUR 3.1 million).

By economic sector, commitments for the financial sector made up the largest proportion with EUR 478.5 million (2012: EUR 380.9 million). By providing finance for banks, funds and specialist finance providers, the aim is above all to improve financing options for small and medium-size enterprises in the partner countries, who have hardly any access to long-term investment capital locally.

DEG committed EUR 403.6 million for investments in the manufacturing industry (2012: EUR 352.2 million). In 2013 it made investment capital available to manufacturers producing pharmaceuticals, plastics, ceramics and synthetic fibres.

Infrastructure schemes accounted for commitments of EUR 314.1 million (2012: EUR 279.7 million). The DEG funds committed in 2013 will primarily be used to finance renewable energy plants and investments in telecommunications and the water supply.

In agribusiness and the food industry, a crucially important economic sector in many developing countries and one upon which many incomes depend, the commitment volume almost equalled the previous year's level. DEG made commitments of EUR 207.8 million, mainly for investments in food processing and agricultural services (2012: EUR 212.8 million).

Financial commitments for the service sector came to EUR 46.0 million (2012: EUR 102.4 million).

Lendings accounted for EUR 1,120.7 million of new commitments (2012: EUR 978.7 million), of which EUR 242.9 million were arranged as loans with equity features (2012: EUR 157.0 million). Lendings in US dollars amounted to the equivalent of EUR 790.6 million (2012: EUR 806.8 million). EUR 329.3 million of newly committed funds were for equity participations (2012: 349.3 million).

Cooperation with other development finance providers

DEG relies on its international networks. For many years, it has been working closely with the members of the European Development Finance Institutions (EDFI), an organisation of development finance institutions for the private sector co-founded by DEG.

With the co-financing vehicle European Financing Partners (EFP), the European Investment Bank (EIB), DEG and twelve other EDFI members have promoted private investments of approx. EUR 1.0 billion since 2003 in countries in the African, Caribbean and Pacific regions (the ACP Group of States). In

2013, when the vehicle was topped up for the fourth time, DEG participated with EUR 25 million. Eleven EDFI members, EIB and the Agence Française de Développement (AFD) are also partners in the "Interact Climate Chance Facility (ICCF)" designed to finance climate-friendly schemes by the private sector. DEG contributed EUR 30 million when the scheme was topped up in 2013.

In the context of DEG's close cooperation with Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) of the Netherlands and the Société de Promotion et de Participation pour la Coopération Economique (PROPARCO) of France, loan and equity participation finance with an overall volume of EUR 972.3 million was committed for 25 new involvements in 2013 (2012: EUR 736.0 million). DEG's share of the overall finance was EUR 413.5 million. Six financing proposals were implemented jointly with the Belgian Investment Company for Developing Countries (BIO) with DEG's share amounting to EUR 122.5 million. DEG made EUR 23.0 million available for two financing schemes with Österreichische Entwicklungsbank (OeEB). In 2013 DEG also participated with EUR 95.0 million in four financing ventures in cooperation with the International Finance Corporation (IFC).

Financing programmes

In 2013, a total of EUR 28.4 million was available for development programmes carried out by DEG on behalf of third parties. 165 projects (2012: 172) newly received approval in 2013, of which 87 involved German enterprises.

Under the programme for development partnerships with the private sector ("Entwicklungspartnerschaften mit der Wirtschaft"), operated by the Federal Ministry for Economic Cooperation and Development (BMZ), funds were made available for develoPPP.de as well as for feasibility studies, grants for transaction costs, complementary measures and a programme of innovation vouchers. Usually, funding of up to 50% is provided, with a maximum of EUR 200,000.

"develoPPP.de" helps German and other European enterprises to carry out measures that benefit development. In 2013 EUR 15.2 million in BMZ funds were made available for both new commitments and current projects (2012: EUR 16.4 million). In the year under review, 63 develoPPP.de projects were approved (2012: 73).

To assist enterprises with the planning and preparation of specific investment schemes, DEG co-finances feasibility studies by German and European enterprises. BMZ made EUR 1.5 million (2012: EUR 1.4 million) available for the purpose in 2013. Co-finance was committed for 14 feasibility studies (2012: 10).

Five schemes by medium-sized German enterprises in Brazil, China and Kenya were assessed thanks to grants for transaction costs from BMZ funds of EUR 0.3 million (EUR 2012: 0.1 million); three schemes received approval.

In order to further enhance the developmental impact of its finance schemes, DEG carries out complementary measures. For example, enterprises receive support to improve energy efficiency or set up appropriate environmental and social management systems. In 2013 EUR 4.1 million (2012: EUR 4.7 million) were made available for 77 (2012: 80) complementary measures. Of this, BMZ funds accounted for EUR 1.8 million (2012: EUR 2.2 million), while EUR 2.3 million came from DEG funds (2012: EUR 2.5 million).

In 2013 BMZ provided EUR 0.2 million for an "innovation vouchers" pilot programme in India and for the assessment of a further project in Indonesia (2012: 0.2 million EUR). Local SMEs without the relevant in-house capabilities receive vouchers that enable them to use external service providers in the fields of technology and R&D.

The programme "Climate partnerships with the private sector", run on behalf of the Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMU) is designed to promote climate-friendly technologies in developing and emerging market countries. In 2013 BMU made EUR 1.0 million (2012: EUR 0.8 million) available for the purpose. Under the umbrella of the programme "Start-up finance for local project development companies", BMU also provided EUR 1.5 million in funds for a finance scheme in the renewables sector.

To promote pioneer investments by SMEs in developing and emerging market countries that want to build on an innovative business model, DEG established the "up-scaling" programme in 2013, which is financed from its own funds. DEG shoulders up to 50% of the total investment volume (EUR 500,000 max.), provided its private sector partners contribute at least 25% of the finance. DEG's contribution must be repaid if the scheme proves a success. In 2013 finance was committed for three schemes in East Africa and EUR 1.0 million paid out.

In Afghanistan DEG continued with its work of promoting local SMEs with a loan guarantee facility using funds from BMZ and USAID. In 2013 some 666 guarantees (2012: 512) were issued for loans with a volume of USD 22.2 million (2012: EUR 16.4 million). Since the facility was set up in 2005, guarantees for around 3,250 loans with a volume of USD 115.6 million have been issued.

Phase II of the "Competitive African Cotton Initiative (COMPACI)" has been running since 2013. The initiative was set up to improve income levels for African cotton farmers. DEG and

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the Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation, GIZ) were commissioned by the Bill & Melinda Gates Foundation and BMZ to implement the initiative. The overall volume for the period from 2013 to 2015 is EUR 48.9 million. In 2013 DEG allocated EUR 2.8 million for the project. The initiative is designed to benefit 650,000 smallholders in ten African countries. DEG was also instructed by the Bill & Melinda Gates Foundation to undertake stewardship of the "Coffee Partnership for Tanzania (CPT)", with a project volume of EUR 22.5 million. It is addressed to 85,000 coffee farmers and runs until the middle of 2016. In 2013, DEG allocated EUR 0.8 million in funds to the partnership. Both schemes are being carried out jointly with German businesses.

Developmental impacts

In order to control and evaluate the quality of its involvements in relation to business and development policy, DEG uses Corporate Policy Project Rating (Geschäftspolitisches Projektrating GPR) for both ex-ante and ex-post analyses. For this crucial performance indicator, each proposal is assessed and awarded points in four categories and then assigned to a developmental quality group.

The evaluation of new commitments for 2013 showed that the high developmental quality achieved in the previous year was maintained with an average rating of 2.0. That was in line with expectation. Through their tax payments, the co-financed enterprises are likely to contribute approx. EUR 812 million annually to government revenues in partner countries and earn around EUR 3 billion in net foreign exchange income per annum. Such substantial contributions from the private sector mean that budget deficits can be reduced and foreign exchange revenue boosted.

Approximately 970,000 jobs have been created or secured as a result of the investments co-financed by DEG in 2013 – once again, a significant increase over the previous year's 435,000 jobs. This was mainly due to the high numbers of jobs with suppliers and SMEs that have benefited from the refinancing lines provided to financial institutions. 75% of schemes (2012: 73%) make a direct contribution to achieving the International Millennium Development Goals (MDG), mainly to ensuring environmental sustainability, eradicating poverty, and promoting gender equality.

Many of the enterprises co-financed additionally accept their corporate social responsibility. They pay above average wages, offer pension or health insurance benefits, and set up health centres, nurseries and schools.

Status report

Profitability

2013 was a successful financial year for DEG; its finance was in great demand, and it was on the whole able to meet its business targets. Despite subdued economic growth in its partner countries, it was again able to achieve a positive operating result.

In the year under review, the interest surplus was EUR 185.9 million (2012: EUR 177.5 million). It should be noted that the previous year's interest surplus included a one-off net charge of EUR 7.6 million from interest rate hedging. Adjusted by this special factor, the interest surplus is at the same level as the previous year's. The increased portfolio margin for 2013 was countered by the effects of devaluation – mainly of the US dollar – on interest earnings.

In the year under review the result from participating interests fell by EUR 25.5 million. This was mainly the result of the trend in income from the disposal of participating interests. In the previous year, this had been affected by the high income from the disposal of a single participating interest. This fall is offset by income of EUR 24.7 million from two involvements, which is accounted for under other operating income in the table on page 22. This relates to the sale of a security from the restructuring of an involvement, and to a contractually agreed adjustment payment in connection with another involvement.

In the year under review the net transfer to provision for risk amounted to EUR 103.8 million (2012: EUR 62.6 million). 30.7% of the net transfer is allotted to lendings and 63.0% to participating interests. In the case of participating interests, 43.8% of the net transfer related to the negative economic development of participating interests, mainly to individual participations in Africa and Asia. The additional net transfer above and beyond that is affected by loss of value due to falling share markets, the devaluation of local currencies against the Euro, and a weak US dollar. For lendings, value was mainly driven by two involvements where the progress of the project has fallen significantly behind the planning.

Staff costs in the financial year 2013 rose by EUR 3.5 million; this was largely in line with the rise in staff numbers and the salary increase provided for in the company agreement.

Financial position

In the past financial year, investments in partner countries and financial investments in bonds and notes under current fixed assets amounted to EUR 1,114.3 million. These disbursements were financed by loan repayments, the disposal of participating interests, raising of outside capital and operating income.

Lending repayments accounted for an inflow of funds in the amount of EUR 746.3; while EUR 130.3 million came from the disposal of participating interests.

Most of the external funds were raised from KfW in the form of borrowers‘ notes and overnight loans. In 2013, EUR 1,162.5 million in funds were raised and EUR 1,024.5 million repaid. External funds were raised by taking advantage of DEG's line of credit with KfW. Under this arrangement, KfW provides DEG with refinancing funds in USD, EUR, GBP and CHF with a term of more than one year on the dates specified by DEG and at the reference rate of interest plus margin.

DEG was solvent at all times during 2013.

Net worth position

Taking into account the accruals in 2013 of EUR 1,244.8 million in total from the disbursement of financial commitments and from currency conversion and the disposals, repayments, write-offs and outflows from currency conversion of EUR 1,156.7 million in all, investments in partner countries at original costs rose by EUR 88.1 million to EUR 4,675.8 million. Participating interests at original cost rose by EUR 206 million to EUR 1,159.7 million (21.6%).

Other assets increased by EUR 65.9 million. This is due to the higher balancing item for accountancy purposes relating to foreign currency valuation for the valuation units (EUR 59.8 million), which arises partly from the use of the gross hedge presentation method and partly from hedging with off-balance sheet foreign currency transactions.

Business volume (measured by balance sheet total without trust business) rose to EUR 4,713 million, an increase of 3% over the previous year.

Taking into account the withdrawal of EUR 3.2 million from the purpose-tied reserve fund for complementary measures and the transfer of EUR 81.5 million in net profit for the financial year, own funds increased overall by EUR 78.3 million to EUR 1,907.4 million. The equity ratio (proportion of equity capital to business volume) rose from 40.0% to 40.5%. The

German accounting standards P&L – economic presentation

EUR million	2013	2012
Income from landings	204.1	209.3
other interest and similar income	1.0	3.0
of which income from interest rate hedging	0.0	1.5
Interest payable and similar charges	-19.2	-34.7
of which: charges from interest rate hedging	0.0	-9.1
Interest surplus	**185.9**	**177.5**
income from disposals[1]	56.6	87.5
income from dividends[2]	32.2	26.8
Result from participating interests	**88.8**	**114.3**
remaining other operating income	**44.7**	**20.5**
Staff costs	-56.3	-52.7
Non-staff costs[3]	-42.4	-41.8
Administrative costs	**-98.7**	**-94.5**
Operating result before provision for risk and valuation effects from currency	**220.7**	**217.8**
Net provision for risk write-up (+)/ write-back (-)	-103.8	-62.6
Valuation effects from currency[4]	-4.5	4.6
Profit for financial year before tax	**112.5**	**159.9**
Taxes	-34.2	-31.0
Transfer/withdrawal from purpose-tied reserve fund	3.2	3.5
Net income	**81.5**	**132.3**

[1] itemised as “Other operating income” in P&L
[2] itemised as “Income from participating interests” in P&L
[3] itemised as “Other operating charges” and “Depreciation and adjustments for impairment of tangible and intangible assets” in P&L
[4] Income from foreign currency (EUR 14.2 million) and foreign currency charges (EUR 18.7) are defined as valuation effect from currency

pre-tax return on equity (ratio of the result from ordinary activities and average equity) was in line with expectation at 6%.

FOLLOW-UP REPORT

No significant events of special importance to profitability, financial or net worth position occurred after the end of the financial year.

INTERNAL CONTROL SYSTEM (ICS)

DEG defines its Internal Control System as all the corporate principles, processes and measures designed to ensure

- the effectiveness and profitability of business operations,
- the correctness and reliability of external and internal financial reporting,
- compliance with any statutory regulations that apply to DEG, and
- protection of the assets and the substance of its financial and net worth position.

Drawing on KFW's ICS system, DEG has formulated its own guidelines that describe the aims, structure and components of its ICS. These principles establish quality standards and the measures employed by DEG in achieving its goals and identifying, assessing and reducing risks. ICS design and implementation fall within the remit of the Management Board and those senior DEG executives who have strategic and operational responsibility for the process. The ICS extends to all business units including representative offices and applies to all corporate functions and processes.

DEG's processes have been established in accordance with the principle of the separation of functions. The Documented Regulations (Schriftlich Fixierte Ordnung SFO) include a description of these processes and the way competences and responsibilities are assigned. They are regularly reviewed and updated in case of change.

The ICS is made up of the Internal Management System, which includes all the regulations designed to manage corporate activities, and the Internal Monitoring System intended to ensure the effectiveness of, and compliance with, these regulations. The implementation of the annual business and risk strategy is regularly monitored in the context of the Internal Management System, and reports are submitted to the appropriate bodies.

The Internal Monitoring System includes monitoring measures integrated into the processes, and others that are independent of them. In process-integrated monitoring, the risks inherent in operational processes are identified and corresponding checkpoints set up within the processes. DEG carries out regular reviews of the function and effectiveness of the controls as defined in order to verify the appropriateness and effectiveness of its ICS and/or highlight possible weak points. An annual report is submitted to the Supervisory Board and complements existing risk reporting.

During the function and effectiveness review for 2013, 145 key controls for risk classes II (processes carrying medium risk) to IV (high risk processes) were subject to testing. Based on these tests, DEG's ICS was judged to be effective.

OUTLOOK

The global economic trend is expected to show a stronger improvement in 2014. Global growth is likely to reach 3.2% compared to the previous year's 2.4%. This improvement is mainly due to the return to a positive trend in the industrialised countries.

GDP in emerging market and developing countries is expected to grow by 5.3% in 2014, exceeding the developed countries at just over 2%. At the same time, the rise in growth is likely to be less dynamic. In regional terms, the growth scenario remains mixed. For instance, the level of economic growth in Asia is likely to be similar in 2014 to that achieved in 2013, while a stronger upturn is expected in Africa and Latin America. In major emerging market countries like Brazil and China, growth is expected to be subdued as a result of structural issues and cyclical factors. The same picture is reflected in the flow of private sector capital. Capital inflows are not expected to increase significantly in 2014, mainly because the industrialised countries have regained their appeal as investment locations.

While on the one hand, accelerating growth in the industrialised countries is likely to have a positive effect on developing countries via foreign trade, any change in monetary policy in the industrialised countries that might lead to a rise in interest rates globally would conversely put growth in the developing countries at risk. The focus here is especially on emerging market countries with foreign trade imbalances and a high degree of integration into the global financial markets. Volatility in the currency markets, which is likely to remain high, is relevant in connection with DEG's participating interests, which are denominated in local currencies.

Elections are due to take place in several emerging market countries, which might lead to a slow-down in the pace of reform. The political risks in North Africa and the Middle East will continue in 2014.

(Source: Global Economic Prospects, World Bank, January 2014).

Corporate forecast

Against this background, DEG is planning to make financial commitments of EUR 1.4 billion in total for 2014. The plans include the same volume of risk capital finance as during the previous year. New business in Africa and other future markets is to expand further in 2014. Finance for SMEs is to be reduced compared to the previous year and only rise again in the medium term. The proportion of finance devoted to climate and environmental protection under new business is to increase further. By the same token, finance for investments by German enterprises in developing and emerging market countries will be expanded.

DEG expects the good development policy ratings achieved by the projects it finances to be maintained in 2014 as in earlier years.

That DEG finance remains in great demand is obvious from the applications for finance received by the end of 2013, from which new business is derived. At approx. EUR 1.6 billion, the volume of applications is only slightly lower than the value at 2012 year end (EUR 1.8 billion).

Given the same level of financial commitments, the commitment obligation (an important performance indicator) is expected to grow by approx. 12% in 2014, partly due to foreign currency effects.

DEG expects the development of its income to remain stable in 2014. It anticipates a moderate rise in operating income. Its main sources of income remain the interest surplus from the loans business and income from participating interests. If the sale of a participating interest shown under opportunity management goes ahead, the prospective income from participating interests for 2014 is likely to be substantially exceeded. Staff costs and operating charges will rise only slightly. Under current plans, net provision for risk in 2014 will be EUR 85 million in total. After provision for risk, the annual profit after tax is expected to be approx. EUR 105 million.

DEG continues to aim for a pre-tax return on equity of 6% on a three-year average, a challenging goal (and a key performance indicator) for a development institution with a high equity ratio. It must be noted that DEG's financial success is significantly affected by provisions for risk and by volatile income from participating interests, which depends on external market conditions.

The development forecast highlights the challenging and complex business climate in which DEG operates and which, conversely, generates development and business opportunities.

As well as the more developed countries, where the demand for investment remains high, it is worth noting that the newly emerging future markets in less developed countries are becoming increasingly relevant. The demand for long-term finance from enterprises willing to invest is likely to continue and even increase in the future.

Against this background, DEG expects to be able to achieve its goals in 2014 as in previous years and to expand its promotional business in terms of both quality and quantity.

OPPORTUNITY AND RISK REPORT

Opportunity management

Within the scope set by the regulatory requirements, DEG takes suitable advantage of opportunities arising from changes in the business environment, economic trends or other shifts in market parameters. In doing so, it focus is not simply on making a short-term profit, but on ensuring the sustainable fulfilment of its development policy mandate. The market divisions in particular are constantly identifying and analysing suitable opportunities, which are taken up by the relevant bodies after coordinating with the Management Board. Long-term opportunities are additionally worked up jointly with the Corporate Management Division and included in the annual strategy review process.

At individual transaction and portfolio level, opportunities arise mainly in the participating interest business and in risk reduction during restructuring in the non-performing section. Here, qualified portfolio management ensures that any opportunities are seized, taking into account aspects specific to the individual involvement as well as to the sector and country.

Based on the assessments as per the forecast, the following opportunities will potentially open up to DEG both in the coming financial year and in the medium term.

From the present vantage point, economic developments in the partner countries are expected to continue in a sideways direction. Against this background, DEG considers the opportunities that might arise from improved address risks, and hence a lower provision for risk, as limited. If important "core countries" such as Russia, Brazil, Mexico, India, Egypt and Turkey prove capable of returning more rapidly to past growth rates, that may produce some earnings potential.

In 2013 the development of the participating interests portfolio was marked by declining share markets and the devaluation of local currencies against the Euro and/or a weak US dollar. As a result, around half the provision for risk in respect of participating interests of approx. EUR 70 million was dependent on exchange rates. Only a very small proportion of title losses were due to negative developments in the enterprises concerned. If there are positive developments in the share markets, or if local currencies and the US dollar are revalued against the Euro, there may be some earnings potential here.

At the end of the previous financial year, DEG signed a contract for the disposal of a participating interest. However, the transaction is still delayed due, among other things, to a condition requiring a permit from the local authorities. Once this transaction is successfully completed, we will be able to realise a considerable profit from the disposal in 2014.

Particular opportunities have been identified in the fields of "risk capital" and "future markets", both for the coming financial year and in the medium term.

DEG's experience over recent years has shown that the risk capital products it offers frequently display a more attractive risk/return profile than long-term loan finance. However, an important prerequisite is that both political and macro-economic developments in key markets remain satisfactory.

The future markets identified display above-average growth potential and high demand for investment on the one hand, while the products offering long-term finance are not wholly adequate on the other. DEG's business model is especially appropriate for these target markets because of its long-term view and its financial products, as well as its willingness to be an early entrant into new markets, and its fundamental acceptance of the risks involved. If it is successful in consistently applying its market entry strategies to these future markets, DEG can look forward to good opportunities in terms of both volume and margins..

Risk management

In 2013 DEG expanded its risk management system by incorporating the new requirements contained in the fourth amendment to MaRisk. This involved mainly taking additional account of adverse scenarios in the multi-year capital planning process, carrying out a first critical analysis of the processes introduced to establish risk capacity, and offsetting the liquidity costs. In addition, the requirements of the amendment in relation to the compliance and risk control functions were incorporated into the Documented Regulations and the processes adapted with a view to ensuring that those specific functions are included among the strategic issues as per the MaRisk requirements.

Risk policy

DEG is exempt from some important requirements under the Banking Act of the Federal Republic of Germany (KWG). However, in addition to applying the risk principles in force throughout the group, DEG has undertaken to maintain the standards of the Bank Supervision Act, in particular the minimum requirements for risk management (MaRisk) mutatis mudandis and to comply with them in its business operations.

DEG's internal audit assessed the processes and methods involved in the risk management system in the year under review. Priority areas were: the system of limits, capital and profitability planning (stress testing, risk capacity), business and risk strategy, and ratings processes. Project support was provided on market price risks (group risk control – currency risk), implementing the fourth amendment to MaRisk, and the development of Treasury management. DEG's development and promotional mandate is reflected in its portfolio: it t is largely made up of countries and addresses with a structurally higher risk.

Key types of risk are identified in an annual risk inventory. No changes have been made to the rating of risk types by significance compared to 2012. The following types of risk remain significant to DEG: credit risk, market price risk, operational risk and market liquidity risk. Given DEG's business model, credit risks are dominant, while the currency risks entered into by providing the finance are also higher.

As part of DEG's strategy process, the risk strategy is set according to the main risks resulting from the institute's business strategy. The risk strategy includes risk management targets for key business activities and measures to achieve each risk target. It comprises fundamental statements on risk appetite and risk capacity, taking risk and income concentrations into account, and sets the general conditions for operational risk management. The risk strategy highlights the planned long-term approach by which the defined risk targets are to be met. Its aim is to limit developments with an adverse impact on DEG. It is the result of strategic planning and covers a medium-term planning period. Specific quantitative requirements (budgets, limits) are defined for a one-year period; these are then extrapolated over a five-year period to establish risk capacity. Steps have been taken to ensure that DEG's risk strategy and the risk control measures derived from it are consistently embedded in KfW's corporate risk strategy.

The risk strategy is implemented by means of specially designed control processes and instruments. Monitoring is carried out monthly, mainly in the course of risk reporting. Where deviations from the risk strategy occur, the reasons are analysed and commented on, and if appropriate, recommendations for action are derived and measures agreed.

Income and risk concentrations are regularly analysed and discussed by in-house bodies. If necessary, additional measures in keeping with the above-mentioned requirements are devised. The Audit Committee and the Supervisory Board receive continuous updates on DEG's current risk situation in the quarterly report.

Key risk strategy goals for DEG are: to secure the economic solvency level (economic risk capacity) laid down (at KfW level) and to maintain regulatory risk capacity based on the equity capital rules set by the supervisory authority, with which DEG complies voluntarily. In keeping with DEG's business strategy and operational planning, risk capacity is assessed across a one-year period, with a five-year outlook. The divisions of DEG involved in controlling risk decide on whether risks are to be accepted, reduced, limited, avoided or transferred, while taking account of any risk limits and qualitative requirements specified in the risk strategy.

The Risk Management Committee (RMC) and the Asset/Liability Committee (ALC), which both convene monthly, are the main bodies which discuss, and take decisions on, topics relevant to risk. The ALC focuses on matters relating to market price and liquidity risks, while the RMC is concerned with situations to do with credit and operational risks (OpRisk). Both address issues relating to measurement, reporting and management of these risks. The RMC is additionally responsible for general issues such as risk strategy, risk capacity, stress testing, and the introduction and/or evaluation of new products.

DEG also has an Equity Risk Committee (ERC) and a Credit Risk Committee (CRC). The ERC is an advisory and coordination body; its aim is the early identification of movements in the market and the cross-divisional control of risks in DEG's equity portfolio. The aim of the CRC, another advisory and coordination body, is the early identification of increased risks in DEG's loans portfolio; it also monitors compliance with any close supervision and discusses existing and potential payment delays.

DEG is represented in the corporate bodies that deal with risk management at KfW and hence integrated into in the group's coordination processes.

Risk capacity

DEG's risk capacity is determined and monitored under both economic and regulatory aspects (monthly and quarterly respectively). For both, minimum equity capital requirements are laid down and must be observed. This ensures that DEG's risk capacity is maintained in regulatory terms and even under stress conditions at the defined solvency level for the evaluation period of one year.

Section 10 of the Banking Act of the Federal Republic of Germany (KWG) defines regulatory risk coverage as the core capital, i.e. paid-up share capital plus reserves, taking deductible items into account – (deductibles meaning supplementary funds, participating interests and tier-2 loans to finance companies). The (as yet) unapproved quarterly results or profit for the financial year are taken into account in the risk coverage. In the economic risk capacity calculation, the deductible items are not eliminated from the risk coverage.

The economic capital requirement is determined and compared to risk coverage for all the finance provided. The economic capital required for credit risks in the finance business is calculated by using a credit portfolio model (Internal Ratings Based Approach (IRBA) formula as per SolvV). In this model, the level of economic capital depends on individual borrower ratings and product-related loss ratios. DEG's main counterparty risks from the derivatives business and from the investment of funds relate to KfW. Beginning in 2013, and due to KFW's special regulatory status, the investment of funds is no longer backed with economic capital; for all other counterparties, it is backed by a general risk weighting of 150%.

The economic capital requirement for market price risks (interest rate and currency risks) is measured and controlled both in terms of present value and using value at risk (VaR) methods. The VaR methods are based on a variance/covariance approach and were implemented in 2013. Using these methods, the risk of changes in cash value is measured for interest rate and currency risks, given a holding period of 2 months (maximum time to close out the positions) and a solvency level of 99.99%. For currencies without fungible hedging instruments in the markets, a holding period of one year is assumed. For operational risks, individual types of earnings in defined fields of business are weighted with special risk factors as required by the supervisory authority BaFin in the standard approach under Basel II rules.

The risk situation has not materially changed compared to 2012.

Risk capacity

EUR million	31 Dec. 2012	31 Dec. 2013
Economic capital requirement	1,223	1,205
Address risks	912	905
Market price risks	268	250
Operational risks	43	50
Economic risk coverage	1,829	1,905
Unrestricted equity	**606**	**700**

Stress tests

In addition to applying these methods, DEG also regularly carries out stress tests with a view to modelling the assessment of the impact on risk capacity of a potentially adverse economic climate and identifying potentially significant risks and risk concentrations.

Every quarter, going concern scenarios, standard stress tests and individual stress scenarios are calculated and analysed. In downturn view, the risk capacity for a target date twelve months ahead is calculated based on the assumption that recognisable risk potentials materialise as a slight economic downturn. In stress view, the risk capacity on a target date twelve months ahead is viewed based on the assumption that a serious recession has occurred. In addition, a typical going-concern approach has been established in keeping with regulatory requirements. In each instance, the effect on the Profit and Loss Account (P&L), the impact on the economic capital requirement, and the level of coverage is calculated in the risk capacity.

Using reverse stress tests, DEG performs quarterly analyses to establish which scenarios might lead to the complete erosion of risk coverage potential.

In devising stress test scenarios, DEG draws on the results of its measurement of risk concentrations and of its early warning system. The assumption is made that risk factors are being affected by improbable, but plausible changes and shocks. For both general and scenario stress tests, potential losses are calculated, the development of economic capital is simulated, and the impacts on risk capacity modelled and critically analysed.

The selection of scenarios and their results are discussed quarterly by the Risk Management Committee with Management Board involvement. All the results are used to assess risk capacity as at the effective date and for a going-concern outlook. They are also taken into account in medium to long-term planning.

The analysis of risk capacity under stress conditions showed that that the risks undertaken by DEG were tenable at all times, both on the effective date of 31 Dec. 2013 and throughout the year.

Types of risk

The following paragraphs examine DEG's business activities in relation to key types of risk. The risks are shown at gross level.

Credit risk

Credit risk (in the wider sense) includes the risk of a possible deterioration of creditworthiness, with default of the contractual partner as a special case. Credit risk is subdivided according to the product groups affected, with loans and participating interests coming under credit risk (in the stricter sense), bonds and notes falling under issuer risk, and derivatives under counterparty risk, which includes replacement risk. Country risk (including transfer risk) is also subsumed under credit risk.

As the breakdown of commitment obligation by region and by industries shows, DEG's risk policy positioning creates certain concentrations in its portfolio. The distribution by region is not critical as regards risk. Distribution by industry shows a focus on providing finance to financial institutions and enterprises in the energy sector. To limit such concentrations, DEG has defined limits at country level for these industries. In addition, DEG has also set limits at regional level on the volume of finance for financial institutions in order to limit transnational concentrations. The risks lie mainly in the enterprises financed by DEG all experiencing the same negative development, counter to expectation, as a result of which the required provision for risk would have a significant adverse effect on DEG's annual result.

Because DEG's business model is influenced by development policy, its portfolio mix – as regards credit risk classes – displays a concentration of medium and high default risk, which is to be expected. For country risk classes, most finance provided by DEG has a good to medium default risk.

Limits have been defined for individual addresses, countries, borrower units and industries. Beyond that, DEG is integrated into KfW's corporate system of limits. Existing limits must be observed, whether set by DEG or by the group. The limits for country and credit risks are also linked to DEG's equity capital and are expressed as percentages of equity capital based on the rating. The Management Board is immediately notified of any breach of the limits. Such breaches are detailed in the risk report.

Apart from occasional passive breaches, the limits defined for both individual involvements and countries as well as at portfolio level were observed. Ten passive breaches of the address limit remained as at 31 Dec. 2013. These passive breaches (due to ratings downgrades or foreign exchange rate movements) were immediately reported to the executives responsible and analysed. On that basis, appropriate policy options were devised and measures taken. The limits are defined based on DEG's equity capital situation and provide scope to implement the business strategy. Should a significant deterioration of the economic situation in our investment countries occur, there is a risk that the leeway provided by the limits is no longer sufficient to implement the business strategy. In this case, the strategy would need to be adapted.

Over the year, acute risks in countries and sectors are additionally limited based on risk barriers prescribed by the group; these use a traffic light system to monitor and control transactions in the markets affected.

For most of its business, DEG not only uses its own in-house rating methods, but also corporate credit ratings for banks, corporates, countries (for transfer/conversion risks) and for equity funds. In the case of banks, corporates and countries, these rating methods meet the qualitative criteria of the German Solvency Regulation (IRBA).

The loan portfolio is also monitored monthly for interest or redemption payments in arrears for more than 90 days. In addition, the loan portfolio is analysed and monitored for arrears of between 30 and 90 days to extrapolate possible early warning indicators. Non-performing obligations (commitment obligation with an M19 or M20 rating) as at 31 Dec. 2013 amounted to EUR 420 million. Arrears of over 90 days and in excess of EUR 10,000 came to EUR 51 million.

The need for individual value adjustments in business on own account, depreciations in trust business for the German government, or the need for individual provisions for probable losses from guarantees and for pledging of participating interests are determined at regular intervals or, if necessary, immediately after any depreciation has been identified, using the available assessment tools to measure the provision for risk required in individual cases. For latent risks, provision is also made in the form of a portfolio value adjustment based on the expected loss. Additional remarks describing the risk provisioning method can be found in the appendix under Accounting/valuation criteria.

For all involvements, a ratings review is carried out at regular intervals or if early warning indicators are present. For an M16 rating or below, close supervision is introduced; this includes more intensive support for the involvement as well as measures designed to safeguard any assets. Where serious disruptions have occurred, e.g. persistent default, the well-founded suspicion of criminal conduct on the part of borrowers, or other circumstances leading to the expectation that the fulfilment of the contract by the partners is at risk, the involvement is transferred to problem management. As required by the regulator, this is carried out by specialist staff and is designed to stabilise or wind up the involvement while not necessarily winding up the enterprise. The department responsible reports at least once a quarter on the development of troubled involvements and any insights gained. When an involvement is transferred to problem management, provision for risk is made based on the default expected at that time and regularly reviewed or adjusted. If the economic outlook in our investment countries should fundamentally deteriorate, DEG would run the systematic risk of a worsening prospect of restructuring or winding up. In that case, the actual default might considerably exceed the provision for risk and have a significant negative impact on results.

Market price risks

By its own in-house definition, DEG does not operate as a trading book institution as per the Banking Act of the Federal Republic of Germany (KWG); in other words, there is no trading on own account for the purpose of generating short-term income. So market price risks are confined to the asset book. Key types of market price risk in DEG's case are interest rate risks and currency risks.

Interest rate risk is defined as the risk of losses due to a change in interest rate ratio unfavourable to DEG. In relation to DEG's finance business, interest rate risk refers to the po-

Regional distribution of industries by commitment obligation

Share of portfolio (commitment obligation as at 31 Dec. 2013)	Africa	Asia	Europe/ Caucasus	Latin America	Total	Prev. year 31 Dec. 2012
Financial institutions	10.0%	10.8%	12.1%	11.6%	**44.6%**	44.0%
Manufacturing	2.6%	10.5%	3.4%	6.0%	**22.4%**	22.8%
Energy & water supply	2.4%	3.7%	0.4%	5.5%	**12.0%**	11.3%
Transport, telecommunications, infrastructure	2.5%	2.2%	1.9%	0.8%	**7.4%**	8.3%
Other services, tourism	1.0%	1.4%	3.8%	2.4%	**8.6%**	8.9%
Agriculture, forestry, fisheries	0.9%	1.0%	1.2%	1.3%	**4.4%**	4.1%
Mining, quarrying, non-metallic minerals	0.4%	0.2%	0.0%	0.1%	**0.7%**	0.7%
Total	**19.8%**	**29.7%**	**22.8%**	**27.7%**	**100%**	
Prev. year, 31 Dec. 2012	18.1%	29.1%	26.9%	26.0%	-	100%

tential loss that may result if a commitment made to a client on particular terms is refinanced at a later date at higher interest or on terms mismatched in some other way (period, yield). By entering into a limited exposure to open interest rate risk positions, DEG generates income from maturity transformations. The strategic interest rate risk position is determined based on the budget and the fixed interest rates in the lending and borrowing business.

Currency risk is the risk of losses as a result of exchange rate movements unfavourable to DEG. DEG is only indirectly exposed to foreign exchange risks (FX risks) in the context of its loan and equity participation business and its refinancing business. DEG is affected by exchange rate risks as a result of fulfilling its development mandate; these are hedged where possible and where appropriate in respect of P&L.

Where feasible and appropriate, open foreign currency positions are closed by means of refinancing or hedging deals. The exception are deals in non-liquid currencies where trading in the financial markets is either strictly limited or not possible at all. For the US dollar, the term for the loan cash-flow to be hedged is taken into consideration in the macro control system. Micro hedges are used for other currencies that require hedging. For equity participations, individual hedging for currency risk is only carried out in exceptional cases.

DEG avoids volatility driven by exchange rates in its P&L by establishing valuation units in its loans business wherever possible and appropriate. Both macro valuation units (especially for USD positions) and, in individual cases, micro valuation units in local currency – currently the rouble, the Mexican peso, the South-African rand, and the Turkish lira – are used for the purpose.

Additional information on how the valuation units figure on the balance sheet is available in the appendix under Accounting/valuation criteria. DEG measures interest rate and currency risks monthly based on economic indicators. The economic capital requirement is made up of a stop-loss buffer for cumulative present value losses over a year, and the possible present value loss that may additionally occur when a position is closed (value at risk, VaR). VaR is the maximum loss that will, with 99.9% probability, not be exceeded if a position is held for a defined length of time.

To examine the effects of extraordinary market fluctuations on the current portfolio, daily scenario calculations are carried out for present values. These take account of regulatory requirements, e.g. consideration of an interest rate shift of +/- 200 bps across all currencies simultaneously. The simulations apply to all the positions in DEG's asset book where interest rate risk applies. The effects on present value of an exchange rate shift unfavourable to DEG are also considered.

Of primary relevance to risk control is the economic risk capacity and hence the economic capital requirement per risk type. For the operational control of interest rate risk, the +200 bps scenario is used and a limit applied. The limit for the +200 bps scenario is supplemented by a stop-loss limit, which limits total portfolio loss since the beginning of the financial year. Where 90% of the stop-loss limit has been reached, any position control must have the express consent of the Management Board. Foreign currency risks are additionally limited based on a 10% exchange rate shift per currency.

DEG issues a daily risk report, ensuring that up-to-date Information is available. This is supplemented by monthly reports and a previously introduced ad-hoc reporting system in case limits are breached.

The economic capital requirement for interest and foreign currency risks appears in the table on page 31.

Liquidity risk

The liquidity risk can be subdivided into two variants: institutional liquidity risk and market liquidity risk. Institutional liquidity risk is the danger that DEG may not be able to meet

Commitment obligation in the finance business by credit and country risk classes

Country or credit risk classes on the M scale	Credit risk	Commitment obligation at 31 Dec. 2013			
		Country risk		Credit risk	
		EUR thousand	per cent	EUR thousand	per cent
M1 to M8	Investment grade	3,342,840	54%	351,624	6%
M9 to M15	Speculative grade	2,287,674	37%	4,583,212	74%
M16 to M18	Close supervision	531,180	9%	811,458	13%
M19 & M20	Default	4,755	0%	420,155	7%
Total		**6,166,449**	**100%**	**6,166,449**	**100%**

its financial obligations at all, or not on time or in full (including withdrawal risk and maturity risk). This insolvency risk on the part of DEG is significantly limited by the existing refinance commitment by KfW, which assures DEG of access to liquidity via KfW. So any insolvency risk on DEG's part is directly linked to the group's liquidity risk. The risk of the banking group's insolvency at any time is measured and controlled by KfW. DEG is responsible for independently measuring and managing its own liquidity. Ultimately, DEG is only exposed to liquidity risk in the stricter sense to a very minor degree, so it does not carry out a risk assessment. Furthermore, DEG has no portfolio of liquid assets; instead, it maintains liquidity in the form of cash reserves, overnight and time deposits, so the extent to which assets can be liquidated is irrelevant.

The institutional liquidity risk is countered by secure liquidity provision at an appropriate level, by careful management and planning of payment flows from the finance business and from refinancing, and by short and medium-term liquidity planning. Liquidity risks are limited by an indicator to safeguard minimum liquidity. At the balance sheet date, this amounted to 10% of non-disbursed commitments. This safeguards one month's disbursements given normal business operations. If DEG falls short of the liquidity limit, the Management Board is immediately informed.

Market liquidity risk is the danger of losses if DEG is unable, due to insufficient liquidity in the market, to trade assets or financing funds at all, in a timely manner, fully or in sufficient number, or at fair market conditions. In DEG's case, this only applies to liabilities. Here, the risk is that refinance could only be obtained at a higher price via KfW, and this higher price could not be passed on to the clients at all or only in part. This risk is measured using stress testing and countered by secure liquidity provision at an appropriate level, by careful management and planning of payment flows from the finance business and from refinancing, and by short and medium-term liquidity planning. Treasury ensures that liquidity costs are covered by the margin in the context of systemic pricing. For exotic currencies, the liquidity costs are individually calculated for each involvement. Results to date show that the impacts on DEG's profitability, financial position or net worth position are fairly minor.

Operational risks

Operational risks are defined as the danger of losses occurring due to shortcomings or failures of internal processes, personnel or systems, or because of external events. This definition includes legal risks, but excludes strategic risks.

Any losses above a minimum level of EUR 5,000 are recorded in an OpRisk events database. In addition, operational risks are systematically recorded in annual risk assessments. In the context of the risk assessments, operational risks are measured on the basis of expert appraisals supported by data. In DEG's case, potential for losses exists mainly due to fraud in relation to the funds employed, to documents and/or bonds & notes, and to payment transactions.

In cases where unavoidable internal or external events occur, Business Continuity Management (BCM) describes a holistic management process that involves all aspects required to carry out critical business processes and reduce losses. BCM takes account of both preventative and reactive components (contingency planning and emergency & disaster recovery respectively).

Operational risks in the field of data processing are much lower by comparison with commercial banks, but still need to be recorded and assessed. The operational processes for IT are defined based on ITIL standards, regularly monitored internally, and audited at least once a year. Controls have been defined for the processes. IT strategy is in line with DEG's corporate strategy. It is updated annually and approved by the Management Board. DEG has a backup computer centre at its disposal. For insurable risks (e.g. fire or water damage), DEG has comprehensive insurance cover.

Economic capital requirement

EUR million	31 Dec. 2012	31 Dec. 2013
Market price risks	268	250
of which interest rate risks	100	103
of which foreign currency risks	168	147

The risk of failing to meet long-term corporate goals based on underlying business assumptions and forecasts is dealt with by continuously aligning new business and the portfolio with DEG's corporate policy development mandate, as well as by monitoring market conditions and conditions governing competition. Strategies and financial planning are developed using a systematic multi-year planning process, and the resulting investments and measures are regularly reviewed along with the portfolio mix.

Reputational risks are dealt with by carefully selecting, managing and supervising involvements through the use of the Corporate Policy Project Rating, by performing money laundering checks, maintaining representative offices, carrying out on-going training, and exchanging ideas. In this context, special attention is paid to identifying and controlling any risks associated with the finance business that are caused by failing to meet environmental and social standards.

Operational risks in the human resources field are dealt with mainly through organisational arrangements such as the two pairs of eyes principle, allocation of roles and responsibilities, and IT-based controls, as well as by ensuring that members of staff have the required level of qualification. The careful selection of qualified experts and on-going training measures ensure that DEG can be confident in the judgements made when the quality of finance is assessed or board mandates are exercised. Job descriptions, including specification of tasks and competencies, are defined in keeping with MaRisk requirements.

Legal risks play a comparatively important role for DEG, since its business operations extend across many countries with a variety of different legal systems and ways of applying the law. The aim is to rule out risks to DEG's legal positions as far as possible by reviewing the formal and actual legal framework in investment countries. DEG employs its own qualified staff in its legal department.

Other risks

In its risk inventory, DEG assesses all types of risk within a defined risk universe at least once a year for relevance and significance. In 2013, DEG included the following relevant but insignificant risk types as a group under "other risks":

- Reputational risk: danger of a deterioration of the public perception of DEG by relevant internal and external interest groups, with adverse consequences for DEG.
- Business risk (distribution risk and risk due to a change in the legal or (economic) policy climate): the danger of losses due to unexpected variations in results caused by external factors.
- Strategic risk: danger of losses (in value) or a deterioration in the liquidity situation because of in-house decisions to do with DEG's fundamental strategic direction and development of its business operations. The cause would be inadequate supervision of the way strategies are being implemented, or the sustained pursuit of unprofitable business activities, while still observing DEG's development mandate.
- Underwriting risk: danger of losses as a result of unexpected underwriting losses arising from actively underwriting life or damage insurance risks (e.g. by a group member in the insurance sector), or from risks connected to pension commitments.
- Real estate risk: danger of losses (in value) when real estate used by DEG or third parties, which is owned either directly or indirectly through real estate funds or companies, is hit by rent defaults, write-downs to the going-concern value, or other (disposal) losses.
- Project risk: danger of losses due to events or circumstances resulting in particular from planning assumptions that are not confirmed and have an impact during the implementation phase which affects the achievement of the project goal in terms of cost, time, or quality.
- Leverage risk: danger of losses on the part of DEG as a result of excessive debt in the sense of too low a leverage ratio or a shortfall in reported equity, which would lead to unintended corrections to the business plan (e.g. forced sale of assets at a loss).
- Derivatives risk: danger of loss (in value) or an impaired liquidity situation associated with derivatives deals (swaps, options, forwards/futures, credit default swaps) or with embedded derivatives (borrowers', issuers' and debtors' contractual voting rights).
- Model risk: danger of loss (in value) or an impaired liquidity situation if inadequate, unsatisfactory or badly parametrised models are used by DEG.

These risks are managed based on the relevance of the individual risk type for DEG.

However, essentially, the risk management system detailed above is not capable of reducing and avoiding operational and external risks altogether. In 2013 there was no evidence of significant damaging events and no indication of potential damage arising from the relevant risk types.

By applying MaRisk mutatis mutandis, DEG has a model of risk management that works and is compatible with its business model. For any other issues arising, it is integrated into KFW's system of risk measurement and control.

In the period under review, both regulatory and economic risk capacity were guaranteed at all times. The company has sufficient reserves at its disposal to take account of any future adverse developments and any other risk that might come to prominence. No risks or developments are currently identifiable which could have a material effect on the future performance of the business.

Cologne, 11 February 2014
The Management Board

››› Annual Statements of Accounts 2013

BALANCE SHEET

PROFIT AND LOSS ACCOUNT

APPENDIX

BALANCE SHEET AT 31 DECEMBER 2013

With previous year's figures for comparison

ASSETS			31 Dec. 2013	31 Dec. 2012
A. Fixed assets	**EUR**	**EUR**	**EUR**	**EUR thousand**
I. Intangible assets				
1. Industrial property rights and similar rights and assets, including licences on such rights and assets			559,697	264
2. Payments in advance			1,539,057	994
			2,098,754	1,258
II. Tangible assets				
1. Land and buildings		48,063,540		49,403
2. Office equipment		3,547,373		3,433
3. Payments in advance		409,044		194
			52,019,957	53,030
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	936,787,057			792,252
b) Lendings to undertakings in which DEG has a participating interest	149,498,179			187,587
c) Other lendings	3,105,955,117			3,200,762
		4,192,240,353		4,180,601
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	133,253,473			90,719
b) Other lendings	792,958			668
		134,046,431		91,387
			4,326,286,784	4,271,988
Total A. (I + II + III)			4,380,405,495	4,326,277
B. Current assets				
I. Debtors and other assets				
1. Amounts owed from investment activities		55,895,838		56,786
of which amounts owed by undertakings in which DEG has a participating interest		3,337,862		5,003
2. Amounts owed from disposal of investments		14,415,550		3,681
3. Amounts owed from consultancy and other services		273,085		337
4. Other assets		91,686,017		25,748
			162,270,490	86,552
II. Bonds and notes			2,813,648	1,101
III. Cash in hand, balances with Deutsche Bundesbank and with credit institutions			167,281,471	163,306
Total B. (I + II + III)			332,365,609	250,959
C. Accruals and deferrals			265,409	176
D. Assets held under trust			71,587,642	76,326
Total assets			**4,784,624,155**	**4,653,737**

LIABILITIES			31 Dec. 2013	31 Dec. 2012
A. Shareholders' equity	**EUR**	**EUR**	**EUR**	**EUR thousand**
I. Subscribed capital				
1. Subscribed capital			750,000,000	750,000
2. Subscribed capital unpaid			-122,147,630	-122,148
Called up capital			627,852,370	627,852
II. Appropriated surplus				
1. Purpose-tied reserve fund				
as at 1 January	20,000,000			13,450
Transfer from net income for previous year	0			10,000
Withdrawal reserve fund	-3,251,000			-3,450
as at 31 December		16,749,000		20,000
2. Other appropriated surplus				
as at 1 January	1,048,985,298			839,285
Transfer from net income for previous year	132,310,000			209,700
as at 31 December		1,181,295,298		1,048,985
			1,198,044,298	1,068,985
III. Net profits			81,516,000	132,310
Total A. (I + II + III)			1,907,412,668	1,829,147
B. Provisions for liabilities and charges				
1. Provisions for pensions and similar obligations		79,830,899		75,032
2. Provisions for taxation		8,680,000		6,150
3. Other provisions		28,798,227		33,884
Total B. (1 + 2 + 3)			117,309,126	115,066
C. Creditors				
1. Amounts owed for financing investment activities		2,645,983,253		2,585,222
2. Trade creditors		1,749,363		1,352
3. Other creditors		40,582,103		46,624
of which tax payable		836,121		7,122
of which social security		172		0
Total C. (1 + 2 + 3)			2,688,314,719	2,633,198
D. Liabilities for assets held under trust			71,587,642	76,326
Total liabilities			**4,784,624,155**	**4,653,737**

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2013

With previous year's figures for comparison

INCOME		1 Jan.–31 Dec. 2013 EUR	1 Jan.–31 Dec. 2012 EUR thousand
1. Income from participating interests		32,241,505	26,827
2. Income from long-term lendings		204,136,351	209,268
of which from affiliated enterprises		1,612,956	2,803
3. Other interest receivable and similar income		984,696	2,976
of which from affiliated enterprises		39,063	168
4. Income from write-ups and write back of provisions in respect of lending business and participating interests			
a) Write-up of financial fixed assets	72,904,588		78,633
b) Write-up of amounts owed from project activities and from disposal of investments	1,141,315		1,258
c) Write back of provisions in respect of lending business and participating interests	7,269,000		735
		81,314,903	80,626
5. Other operating income			
a) from disposal of participating interests		56,577,165	87,523
b) from consultancy services		4,789,787	4,394
c) from trust transactions		522,427	663
d) from other services		8,776,037	8,562
e) other		44,753,686	26,106
Total income		**434,096,557**	**446,945**

CHARGES		1 Jan.–31 Dec. 2013 EUR	1 Jan.–31 Dec. 2012 EUR thousand
6. Depreciation, value adjustments and provisions in respect of lending business and participating interests			
a) Depreciation and value adjustments in respect of financial fixed assets	173,966,945		133,896
b) Depreciation and value adjustments in respect of amounts owed from project activities and disposal of investments	8,906,177		4,995
c) Provisions in respect of lending business and participating interests	2,211,000		4,302
		185,084,122	143,193
7. Interest payable and similar charges		19,234,681	34,707
of which to affiliated enterprises		13,083,830	19,888
8. Staff costs			
a) Wages and salaries		44,544,517	42,102
b) Social security, pensions and other benefits		11,727,951	10,640
of which pensions		6,094,814	5,281
		56,272,468	52,742
9. Depreciation and adjustments for impairment of intangible and tangible assets		2,722,508	2,978
10. Other operating charges		58,323,905	53,416
Total (6.+7.+8.+9.+10.)		**321,637,684**	**287,036**
11. Profit on ordinary activities		112,458,873	159,909
12. Tax on income and profit		34,185,786	31,040
13. Other taxes		8,087	9
14. Profit for the financial year		78,265,000	128,860
15. Withdrawal from purpose-tied reserve fund		3,251,000	3,450
16. Net profit		**81,516,000**	**132,310**

GENERAL NOTES ON THE STATEMENTS OF ANNUAL ACCOUNTS

Form of Annual Accounts

The Balance Sheet and Profit and Loss Account were laid out in compliance with the provisions for large corporations in Articles 266 & 275 of the German Commercial Code (HGB).

Due to business conducted, the items in the Balance Sheet and the Profit and Loss Account have been supplemented or re-designated in accordance with Article 265 of the German Commercial Code (HGB). Itemisation in the Profit and Loss Account is based on income from participating interests.

In accordance with the provisions of the German Commercial Code and clarification by Article 1 of the Ordinance Regulating the Presentation of Accounts by Credit Institutions, DEG is exempt from the provisions on financial statement forms.

Accounting/valuation criteria

Intangible and tangible assets acquired for a consideration are activated at original costs and subject to straight-line depreciation across their average useful life.

The choice to activate internally produced intangible assets under current fixed assets according to the provisions of HGB Article 248 Paragraph 2 was not exercised.

The choice under Article 67 Section 4 Clause 1 of the Introductory Act to the Commercial Code (EGHGB), according to which lower valuations of assets based on depreciation under HGB Article 254 (version in force until 28 May 2009) may be retained, is exercised for the building in respect of the one-off tax depreciation from the transfer of silent reserves as per Article 6b of German Income Tax Law (EstG).

Low value assets are dealt with in accordance with Article 6, Section 2 of German Income Tax Law, i.e. where the value is less than EUR 410, they are immediately recorded under other operating charges.

Financial fixed assets are recognised at original cost or at fair value if lower.

To take account of address risk, DEG carries out risk provisioning for both identifiable and latent default risks in its financing portfolio. The value adjustments are set off in the respective asset items. For guarantees issued by DEG in respect of its finance business, provisions are made in the case of identifiable and latent risks that a claim will be made.

The value of a participating interest is generally determined using the Discounted Cash Flow (DCF) method. Call and put options with sponsors are also considered when establishing the value of a participating interest.

Where market prices, e.g. stock market quotations, are available, DEG will verify whether, following a critical review of the assumptions underlying the valuation and pricing, the stock market price represents an appropriate valuation and should replace the discounted cash flow method. If the participating interest was acquired less than a year earlier, DEG will generally fall back on the purchase price. However, if after acquiring the participating interest, DEG becomes aware of important factors affecting the value which did not enter into the determination of the purchase price, the DCF method is used to determine the purchase price, taking the new findings into account. This applies even during the first year after the participating interest was acquired. If a firm offer to purchase the participating interest has been received, the proposed purchase price replaces the DCF method as the basis of the value of the participating interest. Country risks are taken into account for participating interests by an upward adjustment of the discount factors. If the value of the participating interest as described above is lower than the purchase price or the lower book value, a corresponding value adjustment is made.

In the case of lendings and bonds and notes under current fixed assets, the address non-payment risk of an involvement is initially identified by using trigger events to make a first assessment of whether provision for risk is generally required. If a trigger event has taken place, the level of provision for risk is estimated based on the present value of expected future repayments on the loan in question.

For latent default risks, DEG continues to make a portfolio value adjustment for lendings without an individual value adjustment. Depending on the rating, the portfolio value adjustment is calculated based on the standard risk cost approach and takes into account both address non-payment risks and country risks.

Guarantees issued by DEG in respect of its finance business now also take account of latent non-payment risks as per the method described above.

Amounts owed and other assets are recognised at their nominal value. Actual default risks are catered for by value adjustments.

Assets that are exempt from creditor access and serve only to settle debts from pension liabilities under the deferred compensation scheme were offset against those debts in the sum of EUR 1.1 million as at balance sheet date, as per Article 246 Section 2 Clause 2 of the German Commercial Code. The original costs and the fair value of the assets each amount to EUR 1.1 million as at 31 Dec. 2013. The offset debts were discounted at the market interest rate (4.89%) published by Deutsche Bundesbank in November 2013, which results from an assumed residual maturity of 15 years. Charges and income of EUR 30,033 were offset.

Other bonds and notes under current assets are recognised at original cost, applying the strict lowest value principle and observing the value appreciation requirement.

Provisions for pensions and similar obligations are calculated at their going-concern value using the Mortality Tables 2005 G (Richttafeln 2005 G) published by Dr. Klaus Heubeck.

Other provisions were made at the level of anticipated demand and take all actual risks and liabilities of uncertain cost into account. Any provisions with a residual term of more than one year were discounted in accordance with their residual terms at the average market rate across the past seven years published by Deutsche Bundesbank.

Amounts owed are recorded as liabilities with repayment amounts.

Deferred tax liabilities were offset against deferred tax assets. The choice not to activate deferred tax liabilities that exceed deferred tax assets was exercised under the provisions of Article 274 Section 1 Clause 2 of the German Commercial Code.

At the time of acquisition, all assets and debts currently or originally denominated in foreign currency are converted into Euros at the rate of exchange current at the time of purchase.

A small number of lendings not hedged and denominated in foreign currency are valued at the mean rate of exchange at the balance sheet date, taking original cost into account as the upper value limit. Overnight and time-deposits and balances with banks are valued at the mean rate of exchange at the balance sheet date.

Other assets, debts and pending foreign currency transactions are summarised in valuation units pursuant to Article 254 of the German Commercial Code. Along with one macro valuation unit for assets, debts and pending transactions in USD, additional micro valuation units were established for the other foreign currencies (RUB, MXN, ZAR, TRY). The foreign currency valuation units are reported in the balance sheet using the gross hedge presentation method.

In accordance with DEG's risk strategy, currency risks are hedged against contrary changes in value in foreign currency cash flows from lendings and bonds and notes under current fixed assets, matching currency refinance or pending foreign currency transactions. For the macro valuation unit in USD, all on-balance-sheet activities in USD (lending/deposit activities) are considered jointly; the resulting (net) currency risk remaining is hedged with appropriate derivatives transactions. For the micro valuation units, the currency risks arising from individual basic transactions are hedged with individual hedging instruments. Currency risks are further limited depending on currency. The future effectiveness of the hedging relationship can therefore be assumed.

The macro valuation unit in USD comprises basic transactions in the form of lendings in foreign currency with a book value after deduction of individual value adjustments of EUR 2,424.5 million, bonds and notes under current fixed assets of EUR 18.9 million, and liabilities for the purpose of financing the investment business (borrowers' notes and overnight loans) of EUR 1,743.4 million. The level of remaining (net) currency risks that required hedging was EUR 700.0 million in total as at 31 Dec. 2013. This net position was hedged with off-balance sheet transactions (interest rate swaps and forward exchange deals) in the sum of EUR 676.8 million.

The micro valuation units comprise basic transactions in the form of lendings in foreign currency (without deduction of individual value adjustments) of EUR 189.5 million, which were hedged with off-balance sheet transactions (interest rate swaps) in the same amount.

At balance sheet date, the market value of the basic transactions summarised in the macro valuation unit was EUR 35.7 million. Hedging transactions with a market value of EUR 33.1 million at balance sheet date were used to hedge the currency risk. The market values were determined using the dollar-offset method.

Provision for contingent losses of EUR 2.6 million was posted for the ineffective portion of the macro valuation unit.

At the effective date of 31 Dec. 2013, DEG carried out a calculation using the present value method, as per the IDW RS BFA 3 principles issued by the German Institute of Certified Public Accountants, whereby provision for contingent losses must only be made if the book value of the banking book exceeds its present value. In this calculation, risk and administration costs are taken into account based on general assumptions, though tending towards an overestimate. The calculation shows no provisioning requirement as at 31 Dec. 2013.

Derivatives transactions that neither enter into the foreign currency valuation unit nor serve to control interest rate risks are valued according to the imparity principle at the balance sheet date. In pursuance of Article 249 Section 1 Clause 1 of the German Commercial Code, this has resulted in provision for contingent losses of EUR 3.0 million. Accrued interest is recognised for all derivatives.

NOTES ON ASSETS

Fixed assets

Please see the table "Movements in fixed asset balances" for details.

Tangible assets

For 2013, depreciation came to EUR 2.4 million in total (previous year: EUR 2.7 million). This comprises depreciation on office furniture and equipment of EUR 1.1 million and on buildings of EUR 1.3 million.

For the 2009 financial year, depreciation on the DEG building in Kämmergasse included one-off tax depreciation under Article 254 of the German Commercial Code (old version) of EUR 1.0 million from the transfer of silent reserves from the proceeds of the sale of the land and buildings in Belvederestraße as per Article 6b of German Income Tax Law. The 2013 annual result increased by the sum of EUR 30,000 as a result.

Investments in partner countries

This item shows investments from funds on own account of EUR 4,192.2 million, which are made up of participating interests and lendings. Investments from trust funds of EUR 71.6 million are itemised as assets held under trust.

Own-account investments were made in 558 enterprises in 78 countries. These included three enterprises where the investments were partly financed out of German federal trust funds and by other trustee lenders. In five enterprises, third parties entered into risk sub-participations in the form of counter-guarantees.

Foreign currency lendings with a nominal value of EUR 2,793.4 million are almost wholly hedged by currency swaps and by taking up foreign currency loans.

Financial fixed assets with a residual maturity term of up to one year

	EUR million
1. Investments in partner countries	
a) Participating interests	-
b) Lendings to undertakings in which DEG has a participating interest	30.5
c) Other lendings	594.5
2. Other financial fixed assets	
a) Bonds and notes in current fixed assets	14.8
b) Other lendings	0.0
Total	**639.7**

Please see the table "Movements in fixed asset balances" for details

Movements in fixed asset balances

	Original costs				
	01 Jan. 2013	Additions	Book transfers	Disposals	31 Dec. 2013
	EUR	EUR	EUR	EUR	EUR
I. Intangible assets					
1. Purchased industrial property rights and similar rights and assets, including licenses in such rights & assets	4,348,720	540,653	0	0	4,889,373
2. Payments in advance	994,161	544,896	0	0	1,539,057
II. Tangible and intangible assets					
1. Land and buildings	55,906,121	0	0	0	55,906,121
2. Office equipment	9,091,040	1,350,550	0	289,381	10,152,209
3. Payments in advance	194,035	215,009	0	0	409,044
Total (I + II)	70,534,077	2,651,108	0	289,381	72,895,804
III. Financial fixed assets					
1. Investments in partner countries					
a) Participating interests	953,764,780	276,308,972	7,330,841	77,665,820	1,159,738,773
b) Lendings to undertakings in which DEG has a participating interest	200,127,343	26,427,835	-22,233,072	44,937,767	159,384,339
c) Other lendings	3,433,806,454	942,022,454	14,902,231	1,034,076,366	3,356,654,773
Total 1. (a + b + c)	4,587,698,577	1,244,759,261	0	1,156,679,953	4,675,777,885
2. Other financial fixed assets					
a) Bonds and notes under current fixed assets	89,950,617	58,808,640	0	15,824,497	132,934,760
b) Other lendings	667,650	319,203	0	193,896	792,957
Total 2. (a + b)	90,618,267	59,127,843	0	16,018,393	133,327,717
Total III. (1 + 2)	4,678,316,844	1,303,887,104	0	1,172,698,346	4,809,505,602
Total (I + II + III)	**4,748,850,921**	**1,306,538,212**	**0**	**1,172,987,727**	**4,882,401,407**

Movements in fixed asset balances (continued)

		Value adjustments	Book value	Depreciation
	Write-up	Accumulated depreciation	31 Dec. 2013	2013
	EUR	EUR	EUR	EUR
I. Intangible assets				
1. Purchased industrial property rights and similar rights and assets, including licenses in such rights & assets	0	4,329,676	559,697	245,339
2. Payments in advance	0	0	1,539,057	0
II. Tangible and intangible assets				
1. Land and buildings	0	7,842,581	48,063,540	1,339,701
2. Office equipment	0	6,604,836	3,547,373	1,137,469
3. Payments in advance	0	0	409,044	0
Total (I. + II.)	0	18,777,092	54,118,712	2,722,508
III. Financial fixed assets				
1. Investments in partner countries				
a) Participating interests	31,441,186	222,951,715	936,787,057	96,863,328
b) Lendings to undertakings in which DEG has a participating interest	2,833,071	9,886,161	149,498,179	4,099,268
c) Other lendings	38,572,771	250,699,657	3,105,955,116	69,191,800
Total 1. (a + b + c)	72,847,028	483,537,533	4,192,240,352 [1)]	170,154,396
2. Other financial fixed assets				
a) Bonds and notes under current fixed assets	57,560	1,663,835	131,270,925 [2)]	1,022,470
b) Other lendings	0	0	792,957	0
Total 2. (a + b)	57,560	1,663,835	132,063,882	1,022,470
Total III. (1 + 2)	72,904,588	485,201,368	4,324,304,234	171,176,866
Total (I + II + III)	**72,904,588**	**503,978,460**	**4,378,422,946**	**173,899,374**

[1)] Of which EUR 40.212,525 secured by unfunded risk participation
[2)] Without accrued pro rata interest

Bonds and notes in current fixed assets

Bonds and notes in current fixed assets represents finance committed by DEG which has been securitised.

The item Bonds and notes under current fixed assets (EUR 133.3 million) comprises one convertible bond (EUR 13.0 million) and six further bonds (EUR 119.9 million). Accrued interest at balance sheet date was EUR 2.0 million. Portfolio value adjustment was EUR 1.7 million.

One bond relating to debt restructuring that showed a fair value of EUR 0 million the previous year was successfully sold during the year under review; the proceeds of the sale amounted to EUR 13.5 million.

Amounts owed from investment activities

The EUR 38.7 million in amounts owed comprises largely dividends and interest due (including accrued interest at year end and commitment fees, as well as other amounts owed but not yet payable) and various reimbursement claims. This item also includes accrued interest from swap agreements (EUR 17.2 million).

Amounts owed from disposal of investments

This item shows the purchase money proceeds from the sale or transfer of participating interests and lendings as well as amounts owed with respect to these (e.g. interest payable on purchase money proceeds).

Amounts owed from consultancy and other services

These are reimbursements from trust funds charged to the Federal Ministry for Economic Cooperation and Development (BMZ).

Other assets

Other assets largely consists of balancing items for accountancy purposes relating to foreign currency transactions in respect of the foreign currency valuation units (EUR 66.4 million), amounts owed by consortium partners (EUR 17.7 million) and by the tax office (EUR 5.4 million).

Residual maturity profile of debtors, investments and other assets

EUR million	**Residual maturity**				
	up to 3 months	**more than 3 months up to 1 year**	**more than 1 year up to 5 years**	**more than 5 years**	**Total**
Amounts owed					
1. from investment activities	55.9	-	-	-	55.9
2. from disposal of investments	14.4	-	-	-	14.4
3. from consultancy and other services	0.3	-	-	-	0.3
Other assets	89.5	0.6	1.6	-	91.7
Total	**160.1**	**0.6**	**1.6**	**0.0**	**162.3**

Bonds and notes under current assets

The item Bonds and notes under current assets comprises a bond acquired in the amount of EUR 1.1 million for the purpose of hedging part-time work programmes for employees approaching retirement age, and shares in a bank in Mexico in the amount of EUR 1.7 million. These were transferred to DEG from one of its fund holdings and were disposed of by 13 January 2014.

Balances with banks

Balances with banks covers investments in the money market of EUR 114.0 million invested with the Shareholder KfW as well as current account balances of EUR 53.3 million. These include corporate funds temporarily awaiting investment in enterprises in partner countries.

Assets held under trust

This item includes investments in partner countries from trust funds in the form of participating interests of EUR 14.4 million and lendings of EUR 46.7 million. Additional trust funds from the Federal Ministry for Economic Cooperation and Development (BMZ) of EUR 3.7 million as well as trust funds of EUR 2.3 million from the American development agency USAID relate to a loan guarantee fund in Afghanistan. Amounts owed on a trust basis of EUR 4.5 million are also shown here.

EUR 38.6 million of lendings is accounted for by the “Federal Republic of Germany’s Lending Programme for Business Start-Ups to Promote Start-ups of Small and Medium-sized Enterprises by Natural Persons in Developing Countries” based on special joint lending funds with partner countries or institutions.

Deferred tax assets

There are taxable temporary differences that result in deferred tax liabilities of EUR 0.2 million. These are offset by deductible temporary differences, especially from provisions and risk provisioning, which result in deferred tax assets in the amount of EUR 7.7 million. The choice to refrain from taking the deferred tax asset surplus into consideration was exercised. The deferred tax liabilities were calculated based on an overall tax rate of 32.45%.

NOTES ON LIABILITIES

Subscribed capital/Called-up capital

After deduction of unpaid subscribed capital in the sum of EUR 122.1 million from subscribed capital (as per Article 272 Section 1 Clause 3 of the German Commercial Code), called up capital comes to EUR 627.9 million.

Sole Shareholder is KfW, Frankfurt am Main.

As a subsidiary of KfW, Frankfurt am Main, DEG is included in the consolidated accounts. These, along with the Management Report, may be obtained from KfW.

As a general rule under DEG’s Articles of Association, profits are not distributed. Therefore, the limitation of profits distribution provided for by Article 268 Section 8 of the German Commercial Code does not apply.

Purpose-tied reserve fund for complementary measures

Complementary measures are designed to enhance the developmental impacts of existing DEG financial involvements and create improved conditions to facilitate new ones. They include in particular: enterprise-level training and qualification measures, complementary environmental and social measures, pre-investment studies, specific consultancy measures, and the assignment of external experts.

To enhance developmental impacts, the sum of EUR 3.2 million was transferred for such measures.

Following their transfer to reserves, the funds are deployed for up to five years.

Provisions for pensions and similar obligations

In accordance with Article 253 Section 2 Clause 2 of the German Commercial Code, provisions were discounted across the board at the average market interest rate, as published by Deutsche Bundesbank in November 2013, which results from an assumed residual maturity of 15 years. The interest rate was 4.89%, compared to the previous year's 5.05%. A rise in annual salaries of 3% and a pension rise of 2% or 1% respectively was assumed, depending on remuneration or pension scheme.

Provisions for taxation

Provisions for taxation are for corporation tax and local business tax of EUR 8.7 million in total for 2013.

Other provisions

Other provisions largely cater for risks in respect of loan financing for sureties and guarantees of EUR 6.3 million.

There are provisions for derivatives agreements that neither enter into the foreign currency valuation units, nor are used to control interest rate risks; these take the form of a provision for contingent losses (EUR 3.0 million) and for the USD foreign currency valuation unit (EUR 2.6 million).

The item also includes provisions for variable remuneration (EUR 6.0 million) as well as for leave and compensation for overtime (EUR 2.3 million).

Amounts owed for financing investment activities

Amounts owed here refers specifically to loans against borrowers' notes in the amount of EUR 2,591.1 million placed with the Shareholder KfW Bankengruppe (prev. yr.: EUR 2, 519.8 million).

Other amounts owed

Other amounts owed includes specifically EUR 20.4 million in liabilities in respect of consortium partners and borrowers, EUR 7.3 million in respect of project sponsors, EUR 4.4 million in respect of Bill & Melinda Gates Foundation funds, and EUR 4.2 million from trust funds not yet forwarded.

Residual maturity profile of amounts owed

EUR million	Residual maturity				
	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
1. Amounts owed for financing investment activities	178.3	434.4	1,942.5	90.8	2,646.0[1)]
2. Amounts owed to trade creditors	1.8	-	-	-	1.8
3. Other amounts owed	33.6	0.5	6.1	0.3	40.5
Total	**213.7**	**434.9**	**1,948.6**	**91.1**	**2,688.3**

1) of which EUR 2,641.2 million to the Shareholder (prev. yr. EUR 2,579.3 million)

Liabilities for assets held under trust

The following were made available to DEG on a trust basis for the purpose of financing investments in partner countries and for business start-up loans: EUR 63.1 million from BMZ, a further EUR 3.7 million for a loan guarantee fund in Afghanistan, also EUR 2.3 million from the US development agency USAID and EUR 2.5 million from the Federal Ministry for the Environment, Nature Conservation and Reactor Safety (BMU).

Deferred tax liabilities

Since these were balanced out against deferred tax assets, they are not shown.

NOTES ON INCOME

Income from participating interests and lendings

Income from participating interests and from lendings in partner countries is largely made up of dividends, interest on lendings and bonds and related hedging transactions, and commitment fees and commissions on loans. Break-down by region (excluding the results from hedging transactions) is as follows:

EUR million	2013	2012
Africa	41.7	38.9
America	67.4	65.8
Asia	81.9	86.4
Europe	43.1	41.5
Total	**234.1**	**232.6**

Income from lendings includes out-of-period interest income of EUR 0.5 million relating to the years 2009 – 2012.

Other interest receivable and similar income

For the most part, this item includes income from sureties and guarantees (EUR 0.6 million), from amounts owed from the disposal of investments (EUR 0.2 million) and balances at banks (EUR 0.1 million).

Other operating income

This item includes in particular income from the disposal of participating interests (EUR 56.6 million), from the sale of a bond under current fixed assets (EUR 13.5 million), income from derivative components of loan agreements (EUR 11.0 million), from other services (EUR 8.8 million) and from consultancy (EUR 4.8 million).

Income of EUR 3.9 million (prev. yr. EUR 9.0 million) resulted from foreign currency valuation as per Article 256a of the German Commercial Code, where residual maturity is a year or less.

Out-of-period income of EUR 6.4 million in total resulted from the write-back of other provisions; of this, EUR 3.2 million related to the write-back of provision for contingent losses in respect of derivatives that may not be subsumed under the USD macro valuation unit.

NOTES ON CHARGES

Interest payable and similar charges

These charges were incurred largely on loans against borrowers' notes and bank loans (EUR 10.5 million) as well as the net result from derivatives hedging (EUR 4.0 million). For the 2013 financial year, the item also includes interest charges from the compounding of interest on pension and other long-term provisions in the sum of EUR 3.9 million (prev. yr. EUR 3.7 million).

Staff costs

The charges for pensions and similar obligations of EUR 6.1 million consist largely of the transfer to provisions for pensions, including early retirement (EUR 4.7 million) and contributions to the Pension Association of Publicly Sponsored Companies (Versorgungsverband bundes-und landesgeförderter Unternehmen e.V. VBLU) (EUR 1.2).

Other operating charges

This item includes in particular charges for expert consultants and advisers (EUR 15.3 million), travel expenses (EUR 4.8 million), charges for futures transactions that may not be subsumed under the macro or micro valuation units (EUR 3.4 million) and charges for foreign currency valuation as per Article 256a of the German Commercial Code, where residual maturity is a year or less (EUR 8.7 million, prev. yr. EUR 7.7 million).

A charge of EUR 2.6 million relates to provision for contingent losses in respect of the USD macro valuation unit.

Statement of auditing fees as provided by Article 285 Clause 1 No. 17

In the 2013 financial year, the following auditing fees were taken into consideration:

EUR	2013
Auditing fee	406,100
Other certification services	47,250
Tax consultancy services	17,165
Other services	198,890
Total	**669,405**

The statement of fees for auditing and other services includes charges for 2012 of EUR 371 which were not covered by corresponding provisions.

In the statement of fees for other certification services and tax consultancy services, write-backs of provisions from 2012 in the sum of EUR 26,100 are offset.

Taxes on income and profit

Tax charges of EUR 36.5 million in total, consisting of tax on profits for the 2013 financial year of EUR 31.5 million and foreign tax charges of EUR 5.0 million, are set against tax refunds of EUR 2.3 million for the 2012 financial year.

PROFIT FOR THE FINANCIAL YEAR/NET INCOME

The net income for the financial year of EUR 81.5 million exceeds the profits for the financial year by EUR 3.2, the sum withdrawn from the purpose-tied reserve fund; as stipulated in the Articles of Association, it may not be distributed.

NOTES ON DERIVATIVES TRANSACTIONS

In the context of its risk management, DEG regularly engages in futures trading and makes use of derivatives products. These instruments are not used for trading purposes in the sense of items posted in the trading book, but are primarily deployed to hedge interest rate and currency risks in the asset book.

The market values of derivatives held in the portfolio represent current replacement costs. The positive and negative market values recorded are largely calculated based on in-house models. The main determinants of these in-house models are interest rate ratios and related rates of exchange.

MISCELLANEOUS

Liability/Contingent liabilities

DEG stands surety to the value of EUR 16.2 million for seven enterprises as collateral for borrowing.

In relation to one individual case, provision of EUR 5.6 million was made in respect of the possibility that contingent liabilities may be incurred. Provision of EUR 0.7 million was made for potential risks.

At the balance sheet date, DEG's shares in four participating interests with a book value of EUR 26.8 million were pledged as collateral in respect of liabilities of the enterprises in question.

Given the enterprises' credit ratings, there is no expectation that any liability/contingent liabilities incurred will go beyond the scope of the provision made for this purpose as at the balance sheet date.

Other financial obligations

DEG is required to pay a total of EUR 0.4 million annually under tenancy agreements that run until 2019.

A total of EUR 0.3 million will be payable in fees on leasing contracts for the remaining term until 2016.

Obligations from undisbursed participating interests and lendings amount to EUR 1,339.3 million.

In addition, there are commitments to stand surety in the sum of EUR 0.6 million.

In individual cases, employees of DEG, or third parties instructed by DEG, undertake executive functions in associated companies. The risks arising are generally covered by directors' and officers' liability insurance (D&O insurance) taken out by the company in question. In cases where no effective insurance cover exists, liability risks may arise for DEG.

Derivatives transactions

Volumes

EUR million	Nominal values		Positive market values	Negative market values
	31 Dec. 2012	31 Dec. 2013	31 Dec. 2013	31 Dec. 2013
Contracts with interest rate risks				
Interest rate swaps	991.1	1,056.9	44.4	6.7
Interest rate options				
Long	-	-	-	-
Short	-	-	-	-
Interest rate cap agreements	-	-	-	-
Other interest rate derivatives transactions	-	-	-	-
Total interest rate risks	991,1	1,056.9	44.4	6.7
Contracts with currency risks				
Forward foreign exchange transactions, swaps	125.0	134.8	1.3	0.0
Currency and cross-currency interest rate swaps	1,004.8	1,223.4	99.2	9.0
Foreign currency options				
Long	-	-	-	-
Short	-	-	-	-
Other forward supply transactions	-	-	-	-
Total currency risks	1,129.8	1,358.2	100.5	9.0
Total	**2,120.9**	**2,415.1**	**144.9**	**15.7**

Counterparties

EUR million	Nominal values		Positive market values	Negative market values
	31 Dec. 2012	31 Dec. 2013	31 Dec. 2013	31 Dec. 2013
OECD banks	2,120.9	2,415.1	144.9	15.7
Banks outside the OECD	-	-	-	-
Other counterparties	-	-	-	-
Other agencies in the OECD	-	-	-	-
Total	**2,120.9**	**2,415.1**	**144.9**	**15.7**

Maturities

nominal values, EUR million	Interest rate risks		Currency risks	
	31 Dec. 2012	31 Dec. 2013	31 Dec. 2012	31 Dec. 2013
Residual maturities				
up to 3 months	0.0	0.0	125.0	200.7
more than 3 months up to 1 year	105.8	351.9	45.0	75.0
more than 1 up to 5 years	666.4	630.0	582.2	711.7
more than 5 years	218.9	75.0	377.6	370.8
Total	**991.1**	**1,056.9**	**1,129.8**	**1,358.2**

For derivatives with a negative market value, provision for contingent losses of EUR 5.6 million was made as at the balance sheet date.

AVERAGE NUMBER OF STAFF OVER THE YEAR

Staff not covered by regular pay scales and senior executives	326
Staff covered by regular pay scales	157
Number of female staff	249
Number of male staff	234
Total	**484**

These figures include part-time staff (89) and temporary staff (24), but not members of the Management Board, staff on parental leave, apprentices, interns, or local staff in foreign countries.

REMUNERATION OF CORPORATE BODIES

Total charges for the Supervisory Board in the year under review came to EUR 16,609, of which EUR 10,833 was made up of annual remuneration for membership of the Supervisory Board and its committees, attendance fees and daily allowances; reimbursement of travel expenses accounted for EUR 5,195 and entertainment costs for EUR 581.

Management Board remuneration for the 2013 financial year came to EUR 1,470,414 in total. Current annual salary components were set at a uniform rate for all members of the Management Board and amount to EUR 1,036,441 in total. Overall remuneration further includes a sum of EUR 112,195 for benefits in kind and other emoluments. The performance-related bonus for 2012 was EUR 241,392, of which EUR 120,696 will be paid out over several years. In 2013 staggered payments of EUR 80,385 were made from the deferred bonuses for 2011 and 2012.

Total payments made to former members of the Management Board and surviving dependants amounted to EUR 743,732. Pension provisions for these persons amounted to EUR 9,824,841.

Information on investment holdings as per article 285, no. 11 of the German Commercial Code (HGB)

The following table lists DEG´s investment holdings as of 31 December in accordance with article 285 No. 11 HGB from 20%.

	P. No.	Business name and registered office	Currency[1)]	Rate 1.00 EUR = ... CU[2)] (per 31 Dec. 2013)	DEG holding in per cent	Equity in TCU[3)]	Result in TCU[3)]
A. Home							
1.	P 4216	PCC-DEG Renewables GmbH Duisburg, Germany	EUR	1.00000	40.00%	18,325	313
B. Abroad							
	I. Africa						
2.	P 1147	Banque Nationale de Développement Agricole Bamako, Mali	XOF	655.95700	21.43%	25,419,482	3,097,439
3.	P 4181	Tourism Promotion Services Ltd. Kigali, Rwanda	RWF	933.27500	26.67%	10,438,477	297,261
4.	P 4300	Global Credit Rating Company Ltd. Sandton, Johannesburg, South Africa	USD	1.37910	25.10%	1,975	2,341
5.	P 4422	Banyan Tree Growth Capital LLC Port Louis, Mauritius	USD	1.37910	27.00%	97,726	1,419
6.	P 5122	Berkeley Energy Wind Mauritius Ltd. Ebene, Mauritius	EUR	1.00000	26.60%	49,961	2,083
7.	P 5283	Lereko Metier Solafrica Fund I Trust Johannesburg, South Africa	ZAR	14.56600	47.50%	141	-2,068
	II. America						
8.	P 2782	The SEAF Central and Eastern Europe Growth Fund, Washington D.C., USA	USD	1.37910	25.00%	7,398	-3,497
9.	P 3977	SAE Towers, L. P., Washington D.C., USA	USD	1.37910	26.92%	[6)]	[6)]
10.	P 4534	Kendall Court Mezzanine (Asia) Bristol Merit Fund L. P.	USD	1.37910	24.37%	44,172	1,293
11.	P 4557	Tolstoi Investimentos S. A. São Paulo, Brasil	BRL	3.25475	31.14%	41,931	-29,611
12.	P 4580	Acon Latin American Opportunities Washington D.C., USA	USD	1.37910	40.00%	64,008	14,758
13.	P 4942	EMX Capital Partners LP Mexico-City, Mexico	USD	1.37910	20.08%	7,393	-1,931
14.	P 5102	Worldwide Group Inc. Charlestown, St. Chr. and Nevis	USD	1.37910	32.28%	19,176	888
15.	P 5140	Fundo Mútuo de Investimentos em Empresas Emergentes Stratus Fleet	BRL	3.25475	39.69%	29,332	-154
16.	P 5142	Russia Partners Technology Fund LP New York, USA	USD	1.37910	21.59%	24,845	-1,471
17.	P 5194	Desarrollos Eólicos Maxicanos de Oaxaca 2 S. A.P.I. de C.V., Mexico D.F., Mexico	USD	1.37910	27.78%	-7,250	-6,102
18.	P 5240	Grassroots Business Investors Fund L. P. Washington D.C., USA	USD	1.37910	30.90%	11,399	-374
19.	P 5300	Latin Renewables Infrastructure Fund, L. P. New York, USA	USD	1.37910	29.60%	3,138	-668
20.	P 5321	Adobe Social Mezzanine Fund L.P. Mexico City, Mexico	USD	1.37910	31.40%	[4)]	[4)]
21.	P 5415	ARKENUS S.A., Montevideo, Uruguay	UYU	29.15600	38.00%	557,131	354
22.	P 5515	MGM Sustainable Energy Fund L.P. Toronto, Ontario, Canada	USD	1.37910	24.26%	[4)]	[4)]
23.	P 5583	Acon Latin American Opportunities Fund IV-A, L.P., Washington D.C., USA	USD	1.37910	49.59%	[4)]	[4)]
24.	P 5662	AQ Investments LLC Miami, Florida, USA	BRL	3.25475	28.04%	[4)]	[4)]

	P. No.	Business name and registered office	Currency[1]	Rate 1.00 EUR = … CU[2] (per 31 Dec. 2013)	DEG holding in per cent	Equity in TCU[3]	Result in TCU[3]
	III. Asia						
25.	P 2502	H&Q Philippine Holdings, Inc. Manila, Philippines	PHP	61.21450	49.98%	[5]	[5]
26.	P 2787	Benetex Industries Ltd. Dhaka, Bangladesh	BDT	107.11340	28.30%	[6]	[6]
27.	P 3594	Jade Cargo International Co. Ltd. Shenzhen, China	CNY	8.34910	24.00%	[5]	[5]
28.	P 3763	HaPe International Ningbo Ltd. Ningbo, China	CNY	8.34910	37.50%	106,261	13,712
29.	P 3807	Wanfeng MotorcycleWheel Co. Ltd. Xinchang, China	CNY	8.34910	25.00%	782,002	179,911
30.	P 3878	Ace Power Pvt. Ltd. Colombo, Sri Lanka	LKR	180.31450	26.00%	2,209,192	663,784
31.	P 4518	OJSC Tourism Promotion Services Dushambe, Tajikistan	TJS	6.58396	21.00%	42,858	-29,628
32.	P 4538	Asia Insurance 1950 Company Ltd. Bangkok, Thailand	THB	45.15410	24.62%	200,858	14,789
33.	P 4545	WPD Energy Vietnam Company Ltd. Hanoi, Vietnam	VND	29.08052	30.00%	-2,106,726	-1,578,724
34.	P 4791	PT Avrist Assurance Jakarta, Indonesia	IDR	16.77696	23.00%	2,431,774,000	316,311,000
35.	P 4976	Windprojektentwicklung Thailand Bangkok, Thailand	THB	45.15410	33.33%	5,455	-6,840
36.	P 5315	Nature Elements Asio RE&C Fund L.P. Hongkong, Hongkong	USD	1.37910	30.31%	[4]	[4]
37.	P 5505	ADP Enterprises W.L.L. Manama, Bahrain	BHD	0.51980	23.50%	-59	-79
38.	P 5713	Orilus Investment Holdings Pte. Ltd Singapore, Singapore	USD	1.37910	32.98%	[4]	[4]
	IV. Europe						
39.	P 2562	TOO Knauf Gips Kaptschagaij GmbH Kapchagay, Kazakhstan	KZT	211.81000	40.00%	12,375,919	3,181,566
40.	P 3445	Tirana Airport Partners SHPK Rinas, Albania	EUR	1.00000	31.70%	29,540	9,095
41.	P 3511	Center-Invest Bank Rostov-on-Don, Russian Federation	RUB	45.32460	22.45%	7,593,275	1,100,615
42.	P 3665	TOO Isi Gips Inder Inderborskij, Kazakhstan	KZT	211.81000	40.00%	1,717,413	197,729
43.	P 4095	Emerging Europe Leasing and Finance (EELF) B.V., Amsterdam, Netherlands	EUR	1.00000	25.00%	17,796	1,521
44.	P 4193	Bucharagips AG Buchara, Uzbekistan	RUB	45.32460	25.00%	1,973,332	-155,654
45.	P 4971	Knauf Gips Buchara OOO Buchara, Uzbekistan	UZS	3,035.26000	24.88%	90,643,630	7,759,875
46.	P 5125	EMF NEIF I (A) L.P. Southampton, United Kingdom	USD	1.37910	28.29%	736	-125

[1] ISO currency code.
[2] CU currency units in local currency.
[3] TCU = 1,000 local currency units.
[4] Enterprise in start-up phase; no annual statements of accounts available yet.
[5] Enterprise is being wound up. No annual statements of accounts available.
[6] No current annual statement of accounts available.

CORPORATE BODIES

Supervisory Board

Gudrun Kopp
Chairwoman
Parliamentary State Secretary,
Federal Ministry for Economic
Cooperation and Development
Berlin
(up to 10 January 2014)

Dr. Norbert Kloppenburg
First Deputy Chairman
Member of the Board of
Managing Directors, KfW,
Frankfurt am Main

Dr. Hans-Jörg Todt
Second Deputy Chairman
Management Consultant,
Bad Homburg
(up to 16 June 2013)

Corinna Linner
Second Deputy Chairwoman
Auditor
(from 17 June 2013)

Eberhard Brandes
CEO, WWF Germany,
Berlin

Dr. Harald Braun
State Secretary, Federal Foreign Office,
Berlin
(up to 20 January 2014)

Ernst Burgbacher
Parliamentary State Secretary
Federal Ministry of Economics
and Technology, Berlin
(up to 17.12.2013)

Cécile Couprie
Assistant Director of the
Finance Department
Proparco, Paris
(up to 16 June 2013)

Arndt G. Kirchhoff
Managing Partner
Kirchhoff Automotive GmbH & Co. KG,
Attendorn

Hartmut Koschyk
Parliamentary State Secretary
Federal Ministry of Finance,
Berlin
(up to 29 January 2014)

Siegmar Mosdorf
Parliamentary State Secretary (ret.)
Partner at CNC – Communications
& Network Consulting AG,
Berlin
(up to 16 June 2013)

Dr. Ulrich Schröder
Chairman of the Executive Board, KfW,
Frankfurt am Main

Prof. Dr. Beatrice Weder di Mauro
Professor of Economics
Johannes Gutenberg University,
Mainz
(up to 16 June 2013)

Management Board

Dr. Michael Bornmann

Philipp Kreutz

Bruno Wenn (Chairman)

Cologne, 11 February 2014

DEG – Deutsche Investitions- und
Entwicklungsgesellschaft mbH

The Management Board
Dr. Bornmann Kreutz Wenn

AUDITOR'S REPORT

We have audited the Annual Statements of Accounts – consisting of the Balance Sheet, the Profit and Loss Account and Appendix – including the accounting system and the Management Report of DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH, Cologne, for the financial year from 1 January to 31 December 2013. Responsibility for keeping the books and records and preparing the Annual Statements of Accounts and the Management Report in compliance with the provisions of the German Commercial Code (HGB) and the supplementary provisions of the Articles of Association rests with the company's Board of Management. Our task is to provide an opinion, based on our audit, on the Annual Statements of Accounts, including the accounting system, and on the Management Report.

We conducted our audit of the Annual Statements of Accounts in accordance with Article 317 of the German Commercial Code (HGB) and in compliance with the generally accepted German standards for auditing financial statements established by the Institut der Wirtschaftsprüfer (German Institute of Accountants – IDW). Those standards require that we plan and perform the audit with reasonable assurance of detecting material misstatements and infringements with a significant impact on the presentation of the net worth, financial and earnings position in the Annual Statements of Accounts as prepared in accordance with German accounting principles, as well as in the Management Report. The audit procedures adopted take account of information about the Company's business activities and its economic and legal environment as well as expectations relating to possible errors. For the most part, the effectiveness of the accounting-related internal audit system and evidence supporting the amounts and disclosures in the books and records, the Annual Statements of Accounts and the Management Report, are examined on the basis of spot checks. The audit includes an assessment of the accounting principles used and of the main assessments made by the members of the Company's Management Board, as well as an evaluation of the overall presentation of the Annual Statements of Accounts and the Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not given rise to any objections.

In our judgement, based on the audit findings, the Annual Statements of Accounts comply with the statutory regulations and the supplementary provisions in the Articles of Association and give a true and fair view of the net worth, financial and earnings position of the company in accordance with German accounting principles. The Management Report conforms to the Annual Statements of Accounts, provides a true understanding of the Company's position overall and presents an accurate picture of the opportunities and risks of future development.

Düsseldorf, 20 February 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kügler	Lehnen
Auditor	Auditor

Imprint

Published by:

DEG - Deutsche Investitions- und
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Design and Layout:
Werkstudio : Werbung und Design GmbH
Düsseldorf

Translation:
Delphine Lettau
London

Printed by:
Margreff Druck und Medien GmbH
Essen

Photo:
Getty Images

ISSN: 1862-779X

The Annual Report with Financial Statements
and Management Report is also available in German.

April 2014

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climate neutral
Print | ID: 53214-1404-1006

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