

KfW posts strong growth in demand for financing and continues its modernisation drive



- *At EUR 70.4 billion, promotional business volume moderately exceeds expectations*
- *After phase-out of economic stimulus programmes, bank is reverting to long-term qualitative growth*
- *Environmental and climate protection received one-third of financing*
- *KfW Energy Turnaround Action Plan launched*

In the year 2011, overall promotional business volume of KfW Bankengruppe reached EUR 70.4 billion, more than the originally expected EUR 66 billion. After EUR 63.9 billion in 2009 and an augmented business volume of EUR 81.4 billion as a result of the economic stimulus programmes in 2010, KfW's promotional business is now returning to a path of moderate and long-term qualitative growth. In 2011 KfW committed EUR 50.9 billion to enterprises, municipalities and retail clients in Germany (2010: EUR 64.4 billion). Its international business rose sharply to EUR 19.2 billion, an increase of 28% over the EUR 15 billion committed in 2010.

"As we had announced, KfW reduced its promotional business volume again last year after the end of the crisis-induced, significantly augmented promotional measures of 2010. The promotional business volume of 2011 has reverted to the moderate path of growth of pre-crisis years. This also proves that KfW takes its subsidiary role seriously and pulls back once overall conditions permit", said Dr Ulrich Schröder, Chairman of the Executive Board

of KfW Bankengruppe, at the Annual Prelude Press Conference in Frankfurt on Wednesday.

Besides small and medium-sized businesses, environmental and climate protection were another main focus area. Here KfW committed EUR 22.8 billion, around 32% of the overall promotional business volume. This means that in 2011 almost one out of every three euros of KfW's promotional funds went to climate and environmental protection. This share is to increase this year.

KfW has continued its **modernisation process** which, in its client relations, encompasses focusing its promotional offering more strongly on socially relevant developments and sustainability criteria and aligning it more closely with clients' expectations and needs. Within the group itself, KfW is continuing to develop its processes and organisation. Measures include, among others, optimising business processes, renewing and standardising its IT-systems, applying the tightened regulatory requirements for banks (Basel III, MaRisk) as well as applying German Banking Act (Kreditwesengesetz, KWG) taking into account the special role of KfW. This modernisation course will be continued at the same pace this year, and be publicly documented by a new corporate design and image.

"KfW has already achieved important milestones in implementing its modernisation, but major challenges still lie ahead. We will invest a total

of EUR 500 million over the coming years to assure our future viability and promotional capacity", said Dr Schröder.

Results of the activities of the individual business areas

The promotional business volume of **KfW Mittelstandsbank** was EUR 22.4 billion. The 21.7% decline against the year 2010 is essentially due to the phase-out of the KfW Special Programme on 31 December 2010. Nevertheless, the volume of commitments exceeds the expected target volume of EUR 18.8 billion, which primarily reflects the economic growth achieved in 2011 and the associated business investment activity. Commitments in the priority area of "Innovations" almost matched the previous year's level at EUR 2.2 billion (EUR 2.1 billion), as did the priority area of "Environmental Protection", with a volume of EUR 10.8 billion (EUR 11.1 billion). A split trend became apparent here. On the one hand, demand for loans for photovoltaic solar systems from the "KfW Renewable Energies Programme – Standard" dropped as a result of the reduced feed-in tariff under the Renewable Energy Sources Act. On the other hand, commitments under the "Environmental and Energy Efficiency Programme" with a volume of EUR 3.2 billion were more than double the previous year's level.

In the business area **KfW Privatkundenbank** the overall volume of commitments reached EUR 16.7 billion, meeting the planned level. The drop in the volume of commitments against

the EUR 20.0 billion of 2010 is primarily due to pull-forward effects from that year, in which the more stringent requirements of the Energy Saving Ordinance (EnEV) 2009 were gradually applied to KfW's financing programmes.

Demand also receded as a result of the decline in available federal budget funds for interest-rate reductions in 2011 and the discussion about possible tax benefits for energy-efficient refurbishment. Commitments for "Senior-friendly Conversion" developed very favourably, reaching a volume of EUR 0.4 billion (2010: EUR 0.2 billion). Commitments in the promotional focus of "Education and Social Development" totalled EUR 2.2 billion (2010: EUR 2.1 billion).

The business area **KfW Kommunalbank** achieved a volume of EUR 11.8 billion in 2011, slightly exceeding the target volume of EUR 11.5 billion. The decline against the previous year (EUR 15.8 billion) was primarily due to the phase-out of the "Investment Offensive Infrastructure" and the scheduled reduction of non-programme-related funding for promotional institutions of the federal states. The mass programmes such as "KfW-Investitionskredit Kommunen" or "Kommunal Investieren" recorded strong demand, so that the volume of infrastructure financing of EUR 4.2 billion roughly doubled from the year 2009.

The business area of **Export and Project Finance**, which is under the responsibility of **KfW IPEX-Bank**, achieved a commitment

volume of EUR 13.4 billion. The highest commitments were achieved in the sector Energy and Environment, at EUR 2.1 billion, followed by Shipping as well as Aviation and Rail Transport with EUR 2.0 billion each. The reasons for the increase were enterprises' propensity to invest and the relative restraint on the part of banks and capital market players in individual segments.

The volume of commitments in the business area **Promotion of Developing and Transition Countries** was EUR 5.8 billion (2010: EUR 5.7 billion). KfW Entwicklungsbank accounted for EUR 4.6 billion (2010: EUR 4.5 billion). KfW Entwicklungsbank contributed EUR 2.6 billion in own funds. Seventy-nine per cent of the commitments of KfW Entwicklungsbank in 2011 count as ODA (2010: 75%, 2009: 64%). This underscores the growing importance of KfW's role as a partner of the Federal Government in this area. DEG, which is active in the financing of small and medium-sized enterprises in developing and transition countries, committed EUR 1.2 billion, the same volume as in the previous year (EUR 1.2 billion).

The **KfW Programme to Refinance German Export Loans**, which was launched in 2009 to mitigate the financial and economic crisis, was continued at changed terms and conditions in February 2011. Under this programme KfW provides banks with long-term funds to finance German exports. As banks' funding conditions tightened particularly in the second half of 2011 the programme has met with strong demand. With commitments in

the equivalent of EUR 650 million the programme has contributed to safeguarding German export projects.

To **fund** its promotional business KfW raised EUR 79.7 billion in long-term funds in the capital markets (2010: EUR 76.4 billion). For this purpose KfW issued around 350 bonds in eleven different currencies. The success of KfW's funding operations is due not only to the first-class credit quality of the Federal Republic and the explicit state guarantee but also to its own transparent and long-term issuing strategy. In 2011, a year characterised by great anxiety and high volatility, KfW benefited from investors' "flight to quality". For 2012, KfW is again planning a funding volume of around EUR 80 billion.

Business activities of KfW Bankengruppe

(EUR in billions)	2009	2010	2011
<i>Core business of KfW Group (consolidated) ¹⁾</i>	63.9	81.4	70.4
<i>KfW Mittelstandsbank</i>	23.9	28.6	22.4
<i>of which KfW Special Programme ²⁾</i>	7.2	6.2	0.7
<i>KfW Privatkundenbank</i>	16.1	20.0	16.7
<i>KfW Kommunalbank</i>	9.4	15.8	11.8
<i>Capital market-related products and asset securitisation</i>	1.5	2.1	1.1
<i>Export and project finance (KfW IPEX-Bank)</i>	8.9	9.3	13.4
<i>of which Promotional business</i>	4.3	3.9	6.4
<i>of which Market business</i>	4.6	5.4	7.0
<i>Promotion of developing and transition countries</i>	4.5	5.7	5.8
<i>of which KfW Entwicklungsbank</i>	3.5	4.5	4.5
<i>of which DEG</i>	1.0	1.2	1.2
<i>Overall commitment volume of KfW Group (consolidated) ¹⁾</i>	63.9	103.7	70.4

¹⁾ Adjustment for commitments in Export and Project Finance with refinancing from programme loans of KfW (2011 in the amount of EUR 847 million, 2010: EUR 231 million)

²⁾ Including cancellations and waivers in the KfW Special Programme in the amount of EUR 165 million in 2011

Note

Differences in the totals may occur due to rounding.

A detailed overview of the business of KfW Bankengruppe is available for download at www.kfw.de under Press/Materials for the press/Presentations.