

»» First half of 2013: Increase in demand for KfW financing



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**EUR 1 billion more for
SME financing**

**Increase in municipal infrastructure
finance of EUR 1.2 billion**

**39% of promotional activity relates
to climate and environmental
protection**

**Consolidated profit of
EUR 498 million plus EUR 311 million
to substitute public promotional
financings**

**Profit trend corresponds to
expected decline**

Tier 1 ratio under Basel III: 16.7%

The KfW Group generated a **total financing volume** of EUR 31.5 billion in the first half of 2013, up from EUR 29.9 billion in the same period of 2012. The **domestic promotional business** accounted for most of this figure with a volume of EUR 24.3 billion (previous year EUR 21.6 billion). The volume of commitments in **climate and environmental protection programmes** came to EUR 10.4 billion in the first half of 2013 and exceeded the high level recorded in the same period of 2012 (EUR 9.9 billion). Across the Group, total commitments in the area of climate and environmental protection account for 39% of all commitments. In addition to supporting Germany's energy turnaround, KfW increased its contribution to SME financing by EUR 1 billion.

"The persistently high level of demand for our promotional products shows that KfW is providing appropriate and longterm promotional offerings in the current economic climate", said Dr Ulrich Schröder, Chief Executive Officer of the KfW Group. "In particular, demand for SME finance has risen. We see this as a positive signal indicating that the willingness of SMEs to invest is picking up again. This secures and creates employment and competitiveness."

The income situation developed as expected in the first half of 2013, with a **consolidated profit of EUR 498 million** (EUR 992 million in the same period of 2012), once again exceeding KfW's sustained income potential. Consolidated profit includes KfW's additional efforts from the public promotional financings taken over this year (up to EUR 311 million for 2013 as a whole) for the promotional activities financed by KfW from the Energy and Climate Fund. The purely IFRS-related effects from the valuation of derivatives used for hedging purposes lowered the income situation by EUR 65 million. Against this backdrop, **consolidated profit before IFRS effects from hedging¹⁾**, which is relevant for the economic management of KfW's business, remains high at EUR 563 million (EUR 940 million).

"We can be very pleased with KfW's income performance in the first half of the year, which already includes in full additional promotional efforts for the substitution of federal funds. As projected, it is down on the previous year but above KfW's sustained income potential. Despite an expected further decline in net interest income and the uncertainties

surrounding the performance of risk provisions, in particular, we are looking forward to a highly satisfactory result for the year," Dr Schröder continued.

The **operating result before valuation** (and before promotional activities) was EUR 1,207 million (EUR 1,399 million). KfW's very good funding conditions and a favourable interest rate environment continued to have a positive impact on net interest income as KfW's main source of income. Net interest income (before promotional activities) came to EUR 1,525 million (EUR 1,697 million). At EUR 277 million (EUR 267 million), **promotional activities** – essentially in the form of interest rate reductions – were slightly higher than in the same period of the previous year. The charges resulting from **risk provisions in the lending business** were slightly lower than expected at EUR 139 million (EUR 166 million). They resulted, in particular in the first half of 2013, from the maritime industry business segment within export and project finance.

Of the pleasing result from the **private equity and securities portfolio** totalling EUR 84 million (EUR 89 million), about half resulted from DEG's private equity business and from the increase in the value of securities.

¹⁾ Explanation of consolidated profit before IFRS effects from hedging: Under IFRS, derivatives must be recognised at fair value in the balance sheet even if they are not used for trading, as in the case of KfW, but to hedge interest and currency risks. The opposing valuation effects of the underlying on-balance transactions thus hedged can be reported only inadequately under IFRS and therefore lead to economically inappropriate temporary earnings effects in KfW's income situation. These effects offset each other in total in the course of the overall maturity of the hedged items.

Total assets decreased substantially by EUR 28.6 billion to EUR 483.0 billion. This evolution is largely the result of changes in market value in connection with hedging transactions. Net loans and advances remained virtually unchanged at EUR 364.0 billion (31.12.2012: EUR 364.8 billion) despite high levels of non-scheduled repayments.

The regulatory ratios remained at a consistently high level (Tier 1 ratio: 20.2%; total capital ratio: 22.8%). Under Basel III the Tier 1 ratio is currently 16.7%.

The results of the group's activities

New business in the **business area KfW Mittelstandsbank** came to EUR 11.6 billion in the first half of 2013, a significantly higher volume of commitments than in the same period of 2012 (EUR 10.6 billion). This increase resulted from higher commitments in all areas of promotion. In the area of **Business Start-Ups and General Corporate Finance** commitments increased from EUR 5.3 billion to EUR 5.9 billion against the first half of 2012. This growth was driven by commitments under the KfW Entrepreneur Loan, which accounted for EUR 4.2 billion (EUR 3.7 billion). At just under EUR 1.4 billion, programmes for the promotion of business start-ups also exceeded the figure recorded in the same period of the previous year (EUR 1.2 billion).

As a result of the positive development under the ERP Innovation Programme, the volume of commitments in the area of **Innovations** increased by more than EUR 0.1 billion against the first half of 2012 to EUR 0.5 billion. Volumes at a consistently high level in the area of **Environmental Financing** increased as well, to EUR 5.1 billion, exceeding the level recorded in the first half of 2012 (EUR 4.9 billion). Two opposing trends were observed: at EUR 2.2 billion, commitments for projects in the area of **Renewable Energies** showed a markedly weaker performance than in the first half of 2012 (EUR 3.8 billion). This is attributable, in particular, to the decline in the financing of photovoltaic plants. On the other hand, demand for loans for **Energy Efficiency Measures** developed considerable momentum. After EUR 0.9 billion in the first six months of 2012, loans totalling EUR 2.5

billion have already been committed so far this year. In the business area **Offshore Wind Energy** new projects have been initiated by investors following the standstill in 2012. Commitments in this area came to EUR 0.2 billion.

With a promotion volume of EUR 12.7 billion in the first half of 2013 the **business area Kommunalbank and Privatkundenbank/ Credit Institutions** substantially increased the figure for the same period of the previous year (EUR 11.9 billion). The increase stems mainly from high commitments in **Infrastructure Finance** for municipalities and municipal and social enterprises. At EUR 2.3 billion, their volume doubled when compared with the same period of the previous year (EUR 1.1 billion). With a new business volume of EUR 7.2 billion, the promotional focus on **Housing** also provides substantial growth stimuli (previous year EUR 6.7 billion). Commitments in **climate and environment relevant programmes** Energy-efficient Construction and Refurbishment came to EUR 4.6 billion and were similar to the previous year's level (EUR 4.5 billion); at the same time, subsidies in the Energy-efficient Refurbishment programme doubled to nearly 30,000 commitments. The volume of the programme to promote home ownership increased by just under EUR 200 million to EUR 2.2 billion during the same period.

Commitments for **Education Finance** showed a positive development to EUR 1.1 billion (EUR 959 million). At 1.2 billion, commitments in the **General Refinancing of Promotional Institutions of the Federal States** were below the previous year's level (EUR 2.2 billion) as drawdowns fell short of expectations. However, the volume is expected to increase in the second half of the year. Commitments in the business segment **Individual Financing Banks**, which focuses on the promotion of SMEs through global loans to leasing companies (EUR 400 million) and the programme to refinance export loans covered by federal guarantees (approx. EUR 350 million), came to EUR 904 million (previous year EUR 827 million).

In the business area of **Export and Project Finance**, handled by **KfW IPEX-Bank**, new

business commitments totalled EUR 5.6 billion. The volume of new business commitments is thus virtually unchanged over the previous year (EUR 5.7 billion). New commitments focused on the business segments financial institutions and trade and commodity finance with EUR 1.1 billion as well as maritime industry and aviation & rail with EUR 0.9 billion each.

New commitments in the **business area Promotion of Developing and Transition Countries** came to EUR 1,570 million in the first half of 2013 and were thus at the level of the previous year (EUR 1,562 million). Around two-thirds of new commitments are accounted for by KfW Development Bank, which essentially operates in the public sector. At EUR 515 million, around half of the funds are deployed in Asia while EUR 230 million go to sub-Saharan Africa. 63% of commitments benefit climate and environmental protection. The stable trend of new business at DEG continued: as at 30 June 2013 it committed a total EUR 549 million for the financing of private investment in developing and emerging economies (EUR 579 million). Commitments for climate and environmentally friendly investments were particularly gratifying; at EUR 320 million they were more than 20% above the previous year's level (EUR 297 million). In regional terms, at EUR 260 million (EUR 221 million) most funds went to Asia.

As at 31 July 2013 KfW raised long-term funds for the equivalent of EUR 44.2 billion in the international capital markets in 13 different currencies. This corresponds to around 65% of the **funding requirement** for 2013, which was recently reduced to EUR 65-70 billion on account of high levels of non-scheduled repayments in the lending business.

In the first half, EUR 173 million were made available to banks and leasing companies via securitisation instruments to finance SMEs.

Key financial figures (IFRS)

Key income statement figures (EUR in millions)	01.01.2013 – 30.06.2013	01.01.2012 – 30.06.2012
Operating result before valuation (before promotional financing)	1,207	1,399
Consolidated profit	498	992
from hedging	563	940
Key balance sheet figures (EUR in billions)	30.06.2013	31.12.2012
Total assets	483.0	511.6
Equity	21.2	20.7
Business volume	561.0	587.5
Key regulatory figures (in %) ¹⁾	30.06.2013	31.12.2012
Tier 1 ratio	20.2	18.2
Total capital ratio	22.8	20.6

¹⁾ Calculated voluntarily for internal purposes on the basis of relevant legal regulations.

Business activities of KfW Group

(EUR in billions)

	1 – 6/2012	2012	1 – 6/2013
Core Business of KfW Group (consolidated)¹⁾	29.9	73.4	31.5
Domestic Promotion ²⁾	21.6	50.6	24.3
Mittelstandsbank	10.6	24.1	11.6
Kommunal- and Privatkundenbank/Credit institutions	11.9	29.3	12.7
of which			–
Privatkundenbank	7.7	17.4	–
Kommunalbank	3.4	9.1	–
Capital market-based financing ²⁾	0.8	2.7	–
Capital markets	174 million	825 million	173 million
of which			–
Capital market-based financing ²⁾	174 million	825 million	–
Outside Germany	7.3	19.7	7.2
of which			
Export and project finance	5.7	13.4	5.6
Financial Cooperation (Business area KfW Development Bank)	1.0	4.9	1.0
DEG	0.6	1.3	0.5
Overall commitment volume of KfW Group (consolidated)¹⁾	29.9	73.4	31.5

¹⁾ Adjustment of the total volume of the KfW Group for commitments in export and project finance refinanced through KfW programm loans (06/2012: EUR 79 million, 2012: EUR 440 million, 06/2013: EUR 78 million)

²⁾ Differences in the totals may occur due to rounding. The commitments of Capital market-based financing in the previous year were not included in the reported domestic volume.

Service: An overview of the business and financial figures of KfW Group is available for download at <https://www.kfw.de/KfW-Group/Newsroom/Pressematerial/Präsentationen-und-Geschäftszahlen/>