

Promotion in 2016: sustained demand for KfW promotion in Germany

- **KfW promotional business volume rises to EUR 81 billion (+2%)**
- **EUR 55.1 billion for domestic promotion**
- **Strong demand for the promotion of energy efficiency in the home (EUR 15.5 billion) and at companies (EUR 5.2 billion)**
- **Very good year in Development Cooperation**
- **Demand for financing normalises at KfW IPEX-Bank**

KfW Group registered very strong demand for its financing products again in financial year 2016. The volume of promotional commitments rose to a total of EUR 81 billion (2015: EUR 79.3 billion, +2%).

With a volume of commitments totalling EUR 55.1 billion (2015: EUR 50.5 billion, +9%), **domestic promotional business** spurred the growth of the German economy. The increase is above all due to very strong demand for housing finance, combined with robust demand for finance from industry.

“The strong demand shows that KfW promotion is having an impact on citizens and business owners, and therefore playing a large part in tackling the economic and social challenges that we currently face,” said Dr Ulrich Schröder, Chief Executive Officer of KfW Group.

Commitments in the **international business** are stable at EUR 24.9 billion (2015: EUR 27.9 billion). The financing and promotion in development cooperation recorded a very good year (EUR 8.8 billion). The volume of financing offered by KfW IPEX-Bank as a specialist for export and project finance normalised again at EUR 16.1 billion following the previous year’s exceptional figure.

Demand for promotion of **environmental and climate protection projects** was once again very strong (EUR 35 billion, or 44% of all commitments).

“This year the share of KfW's total promotional business volume that was committed for environmental and climate financing was the highest in its history. In this way, KfW is continuing in its role as one of largest financiers of environmental and climate protection measures in Germany and around the world,” Dr Schröder said.

Between 2012 and 2016, KfW issued commitments with a total volume of EUR 103 billion for projects in connection with the energy transition, in line with the **KfW Energy Turnaround Action Plan**, thus making an important contribution towards achieving the German Federal Government's environmental and climate goals. The measures for which financing was provided include off-shore wind farms, energy-efficient construction and refurbishment, municipal investments and technological innovations aimed at climate protection.

The **digitalisation** of KfW's business continues, with new approaches for promotion in Germany and in other countries. In Germany, the expansion of the **Bankdurchleitung Online 2.0** (BDO) promotional funding platform is taking advantage of the opportunities offered by digitalisation. At the end of 2016, almost all housing sector promotional products between KfW and its financing partners were processed digitally via the BDO platform. The first commercial promotional loan was also granted via BDO in the summer of 2016. Since December 2016, private clients have been applying for all of the investment grants offered by KfW via the KfW grants portal, and receive their funding commitment immediately. Digitalisation also serves as a catalyst for modernisation and development in the promotion of developing countries and emerging economies.

“KfW is undergoing a digital transformation process, and sees these new technologies as an opportunity. In doing so, we are meeting our costumers' growing demand for the streamlined and digital processing of their promotional loans. We also want to do our bit to promote Germany's digital transformation,” said Dr Schröder.

KfW is helping the German Federal Government, states and municipalities with direct crisis management as well as sustainable integration in connection with the **refugee issue**. The “refugee accommodation” special facility that was launched in September 2015 was already exhausted four months later, in January 2016. Accommodation for up to 150,000 people was created in 700 municipalities. KfW has been assisting the German federal states with promotional programmes for affordable housing since April 2016, and in so doing making a valuable contribution towards long-term integration.

Internationally, the KfW Development Bank business area currently has almost 100 ongoing projects relating to refugees in 27 different countries with an overall volume of EUR 2 billion. A total of around EUR 575 million in new commitments was going to 30 projects that are providing direct support for towns and villages taking in refugees in partner countries.

Details on the business sectors' promotional activities

Domestic promotional business:

The volume of new business in the **Mittelstandsbank** business sector last year amounted to EUR 21.4 billion. This put it around EUR 1 billion above the figure recorded for the previous year (2015: EUR 20.4 billion).

With a volume of EUR 10.7 billion (2015: EUR 9.3 billion), the **environment and energy** priority sector achieved strong growth in 2016. This was largely due to the energy efficiency programme, which was restructured and significantly improved in 2015 and through which a total of EUR 5.2 billion (2015: EUR 3.8 billion) were handed out already in the first year following its restructuring. Since May 2016 the promotion of systems aimed at avoiding or using exhaust heat has tapped into additional potential for reducing energy consumption. At EUR 4.7 billion, the high volume achieved in the previous year by KfW's renewable energies programme (EUR 4.5 billion) was also exceeded again.

The priority area of **start-ups and general corporate finance** held steady year-on-year with a volume of EUR 10.1 billion (2015: EUR 10.3 billion), as did **start-up finance**, which was already the subject of strong demand in the previous year (2016: EUR 3.6 billion, 2015: EUR 3.7 billion).

Commitments of EUR 0.6 billion in the **innovation financing** business were down slightly on the previous year's level (2015: EUR 0.8 billion). The issue of digitalisation is an important factor with respect to the future competitiveness and innovation of the German SME sector. KfW is currently refining its activities to promote innovation in partnership with the German Federal Ministry for Economic Affairs and Energy (BMWi) in order to create targeted incentives for digitalisation projects. The financing of innovation already received a significant boost in 2016 thanks to the successful implementation of the new equity finance strategy. Following the good start of the ERP Venture Capital Fund Investments, the programme is now being expanded to include venture debt funds in order to provide even better support to fast-growing tech companies. The VC Fund set up by KfW and the BMWi in March 2016 has also been very well received by the market. In total, this new form of equity finance will enable KfW to leverage up to EUR 2.5 billion in private capital for innovative start-ups over the next few years.

The volume of new business for the **Kommunalbank and Privatkundenbank/Kreditinstitute** business sector amounted to EUR 33.7 billion (2015: EUR 30.1 billion).

Growth was very strong in the **housing** priority area in particular. Commitments reached a volume of EUR 20.8 billion (2015: EUR 16.5 billion), with more than EUR 11 billion disbursed in the energy-efficient construction programme alone (2015: EUR 7.0 billion). The strength of the new construction sector and low interest rates provided a strong and lasting boost to demand.

Commitments with a volume of EUR 4.1 billion were issued in the **infrastructure finance** segment (2015: EUR 5.0 billion). As was already the case in the previous year, the special facility for refugee accommodation was once again a major factor at just under EUR 450 million (2015: EUR 1 billion). The amount of EUR 1.5 billion was quickly used up in connection with the acute measures implemented. What was also particularly encouraging was that promotion for municipal environmental and climate protection measures doubled from EUR 378 million in 2015 to EUR 745 million.

The promotional business volume in the **education and social development** priority area at around EUR 2.3 billion was once again at a good level (2015: EUR 2.6 billion). At EUR 4.4 billion, the contract volume in the **global funding** of promotional institutions of the federal states was also down slightly on the previous year (2015: EUR 4.7 billion). **Individual financing for banks** increased its volume of promotion to EUR 2.1 billion (2015: EUR 1.3 billion), above all thanks to the issue of global loans for lease finance.

International finance:

In 2016 the **Financial markets business sector** contributed a total of EUR 1.3 billion (2015: EUR 1.1 billion) to promote the SME sector and finance climate and environmental protection by investing in securitisation transactions and green bonds.

While around EUR 1 billion was invested in securitisation transactions in 2016, a volume of EUR 1.3 billion is planned for 2017. KfW launched the European securitisation initiative “ENSI” together with the European Investment Fund (EIF) and national promotional institutions with the aim of improving the financial opportunities available to SMEs. KfW has invested in six different transactions to date as part of this initiative, and in so doing supported Europe's SME sector. The cooperation is to be intensified in 2017.

KfW worked to protect the climate through its green bond portfolio in 2016, buying green bonds with a volume of around EUR 300 million. This means that KfW held green bonds with a total volume of around EUR 580 million at the end of 2016. In 2017, KfW is planning to invest an additional amount of around EUR 300 million in green bonds. The target volume for this portfolio is EUR 1 billion.

In the **Export and project finance** business sector, which is handled by KfW IPEX-Bank, new commitments of EUR 16.1 billion were achieved (2015: EUR 20.2 billion). This means that the volume of commitments stabilised again at the normal level for past years after spiking in the previous year due to exceptional effects. The largest contributions stemmed from the Power, Renewables and Water (EUR 3.1 billion), Maritime Industries (EUR 2.4 billion) and Financial Institutions and Trade Finance (EUR 2.1 billion) sector departments, often working as part of a syndicate with other banks. Financing in the Power, Renewables and Water department mainly relates to on-shore and off-shore wind farms as well as highly efficient combined-cycle power plants.

KfW Development Bank saw a substantial increase in commitments. Around EUR 7.3 billion in finance was provided to developing countries and emerging economies over the past year on behalf of the German Federal Government (2015: EUR 6.7 billion), with 66% of this amount going to projects in the field of protecting the climate and environment (2015: 60%). This percentage mainly stems from the financing of environmentally friendly power generation and distribution. Almost a third of all new commitments went towards development projects in Africa.

DEG, a subsidiary of KfW, achieved the highest volume of new business in its almost 55-year history. It committed around EUR 1.6 billion in 2016 for investments by private companies in developing countries and emerging economies, which is 46% more than in the previous year (2015: EUR 1.1 billion). Financing for SMEs was once again a focus, with more than half of all new commitments (EUR 871 million) going to SMEs. DEG committed EUR 253 million, almost twice as much as it did in the previous year, for German companies, which are one of its strategic priorities. Investments in sub-Saharan Africa accounted for one fifth of all new commitments (EUR 316 million).

To **fund** its promotional business, KfW in 2016 raised funds amounting to EUR 72.8 billion in the international capital markets. To this end, it issued 206 bonds in 15 different currencies. The core currencies were still the euro and the US dollar, which together accounted for a share of 83%.

The US dollar was the currency with the greatest share of the total volume of funding (47%, EUR 34.3 billion), as it was in 2015 (45%, EUR 28.0 billion). As part of its green bond activities, KfW issued Green Bonds in four different currencies in 2016 (euro, pound sterling, US dollar, Swedish krona), with an equivalent value of EUR 2.8 billion.

KfW expects its funding requirements for 2017 to be slightly higher (approx. EUR 75 billion) than in the previous year. With its established issue strategy and an explicit and direct guarantee from the German Federal Government, KfW considers itself to be in an ideal position to achieve its planned volume of funding.

Promotional Figures 2016

Business activities of KfW Group (EUR in billions)

	2014	2015	2016
KfW Group (consolidated)¹⁾	74.1	79.3	81.0
Domestic promotional business	47.6	50.5	55.1
<i>of which:</i>			
<i>Business sector Mittelstandsbank</i>	19.9	20.4	21.4
<i>Business sector Kommunal- & Privatkundenbank/ Kreditinstitute</i>	27.7	30.1	33.7
Business sector Financial markets	1.2	1.1	1.3
International business	25.5	27.9	24.9
<i>of which:</i>			
<i>Business sector Export and project finance (KfW IPEX-Bank)</i>	16.6	20.2	16.1
<i>Business area KfW Development Bank</i>	7.4	6.7	7.3
DEG	1.5	1.1	1.6

1) Adjustment for commitments of Export and project finance with refinancing from KfW programme loans (2014: EUR 153 million, 2015: EUR 229 million, 2016: EUR 273 million)

An overview of the business and promotional figures in table form is available for download at www.kfw.de/geschaeftszahlen.