

First half 2016: Demand for KfW promotion paints a mixed picture

- **Total commitments down to EUR 36.2 billion**
- **Increase of domestic promotional business to EUR 26.7 billion**
- **Strong demand for energy efficiency measures in residential construction and corporate business**
- **Commitments of KfW Development Bank twice as high at EUR 3.1 billion**
- **KfW IPEX-Bank back to previous years' level at EUR 5.4 billion, after exceptional year in 2015**
- **Consolidated profit of EUR 779 million exceeds expectations**

In the first half of 2016, KfW Group distributed promotional funding totalling EUR 36.2 billion (compared to EUR 41.5 billion during the same period in the previous year, resulting in a year-on-year decline of 13%). The **domestic promotional business** was very successful during this period at EUR 26.7 billion, and exceeded the figure for the previous year (EUR 25.7 billion) by about EUR 1 billion (+4%). Strong demand in particular for the financing of energy-efficient residential construction and energy efficiency projects at companies contributed to this increase. Demand for general corporate finance, however, remained down year-on-year on account of reluctance among Germany companies to invest. At EUR 9.0 billion, new commitments for KfW's **international business** were much lower than in the previous year (EUR 15.4 billion, -42%). This trend can be attributed mainly to the anticipated normalisation of the volume of commitments at KfW IPEX-Bank, which at EUR 5.4 billion came in far below the previous year's figure marked by non-recurring effects (EUR 13.1 billion, -59%), but is generally in line with the average over the previous five years (EUR 5.8 billion). The commitments of the KfW Development Bank business area underwent a particularly positive trend, almost doubling from EUR 1.6 billion to EUR 3.1 billion. DEG committed financing in the amount of EUR 0.43 billion (EUR 0.67 billion).

"As anticipated, the demand for KfW promotion reflects the moderate growth of the German economy. At the same time, KfW's promotional figures show the strong interest in long-term financing at a time of low interest rates, particularly in the field of residential construction," said Dr Ulrich Schröder, Chief Executive Officer of KfW.

Although the earnings position weakened as expected in the first half of 2016, with **consolidated profit of EUR 779 million** (EUR 1,152 million), it still exceeded our expectations. This trend is due in particular to positive non-recurring effects in the valuation result.

"KfW's results improved in the second quarter of 2016. KfW is once again benefiting from various non-recurring effects this year. We expect our results for the year as a whole to fall compared to 2015 but still be over average," said Dr Schröder.

The **operating result before valuation** (before promotional activity) was EUR 949 million (EUR 1,009 million). Net interest income (before promotional activity) amounting to EUR 1,363 million (EUR 1,415 million) continues to be the main source of income based on KfW's persistently good funding conditions.

Promotional activity – mainly interest rate reductions for new business in 2016 – totalled EUR 104 million, well below the previous year's figure (EUR 181 million) on account of what is still a low rate reduction margin in the current interest environment.

Risk provisions in the lending business exerted only a moderate drag on the earnings position, totalling EUR 13 million. The need for valuation adjustments, particularly in the Export and project finance and Promotion of developing countries and emerging economies business sectors, was largely offset by positive non-recurring effects in the form of amounts received for receivables that had already been written off.

The still pleasing **result from the private equity and securities portfolio** amounting to EUR 46 million (EUR 135 million) is primarily attributable to DEG's private equity result.

The purely IFRS-related effects from the valuation of derivatives used as collateral also reduced the earnings position by EUR 190 million (+EUR 68 million).

Total assets of EUR 512.2 billion are up in comparison to 31 December 2015 (EUR 503.0 billion), mainly due greater reserves of cash and cash equivalents.

The group's **regulatory equity ratios** held steady or fell slightly in recent months following a marked increase in the first quarter. The total capital ratio amounts to 21.5%

when applying the IRBA analogously (31 March 2016: 21.2%). KfW has been subject to the regulatory reporting requirements for capital ratios since the start of the year. Until regulatory approval is received for the IRBA, KfW reports to the banking supervisory authorities in accordance with the credit risk standardised approach (CRSA), based on which the total capital ratio is 14.7% as of 30 June 2016 (31 March 2016: 15.4%). The changes in the second quarter can mainly be attributed to the development of exchange rates and business.

Details on the business sectors' promotional activities

The new business of **Mittelstandsbank** (SME Bank) at EUR 9.5 billion was down compared to the previous year (EUR 11.0 billion). This is a result of the current market conditions (modest expectations for the European economies, consolidation of low interest rates, very strong liquidity reserves at banks) also having an impact on demand for KfW promotion. The decline mainly relates to the **general corporate finance** sector (EUR 2.9 billion, previous year: EUR 3.9 billion). **Start-up finance**, in contrast, performed very well with new commitments of EUR 1.7 billion, equalling the already very strong result for the previous year.

Promotion in the field of **innovation** held steady in comparison to the previous year (EUR 0.3 billion). "coparion", the new co-investment fund established by KfW and the German Federal Ministry for Economic Affairs and Energy (BMWi), commenced operations in March. coparion invests venture capital in young tech companies in partnership with private lead investors.

Funds with a total volume of EUR 4.6 billion (EUR 5.0 billion) were committed in the promotional area of **environmental protection**, and individual, large-volume financings are expected in the second half of the year. The KfW Energy Efficiency Programme, which was restructured in 2015, performed particularly well. With commitments of EUR 2.2 billion (EUR 1.6 billion), the previous year's level was easily surpassed. The new "waste heat" programme was also added to the product family on 1 May 2016. It finances measures of companies to avoid and utilise waste heat via low-interest loans as well as redemption grants from the German Federal Ministry for Economic Affairs

and Energy (BMW). In this way, the SME Bank is making another important contribution to saving energy and reducing CO2 emissions in the commercial sector.

The volume of new business for the **Kommunalbank and Privatkundenbank/Kreditinstitute business sector** amounted to EUR 17.2 billion in the first half of 2016 (up from EUR 14.7 billion). This growth was mainly driven by the priority areas of housing and infrastructure finance.

Commitments in the **housing** sector hit a new high at EUR 10.4 billion (EUR 8.0 billion), which reflects the persistent strength of the construction sector. One very encouraging development is that the growth was mainly achieved in the energy-efficient construction and rehabilitation promotional programmes, which means that more investment went into the construction of energy-efficient buildings and the energy-efficient refurbishment of existing properties.

Infrastructure financing also made a clear contribution to this positive trend, with a promotional business volume of EUR 2.4 billion (EUR 2.0 billion). In addition to the "refugee accommodation" special facility, through which KfW provide a further EUR 500 million of interest-free loans to municipalities in 2016, demand rose for basic municipal promotion and the promotion of energy efficiency in public buildings.

There was also an increase in **individual financing of banks**, with commitments exceeding EUR 1.0 billion (EUR 0.7 billion). On the other hand, the commitment volume in the promotional fields of **general funding for promotional institutions of the federal states** and **education** fell slightly to EUR 2.4 billion (EUR 2.7 billion) and to EUR 1.1 billion (EUR 1.2 billion) respectively.

In the **Export and project finance business sector**, for which **KfW IPEX-Bank** is responsible, new commitments added up to EUR 5.4 billion. As had already become apparent in the first quarter, the volume of commitments thus returned to the normal level of previous years (average for the past five years: EUR 5.6 billion) following the exceptional year of 2015 in which the accumulation of non-recurring effects in the first half of the year led to an extraordinarily high volume of commitments of EUR 13.1 billion. In difficult market conditions, Power, Renewables and Water constituted a priority area with EUR 1.4 billion. The Financial Institutions and Trade Finance sector depart-

ments also contributed EUR 1.1 billion, while Maritime Industries contributed EUR 0.8 billion to the volume of commitments.

Commitments in the **Promotion of developing countries and emerging economies business sector** totalled EUR 3.6 billion (EUR 2.3 billion). **KfW Development Bank** almost doubled the volume of commitments for projects and programmes around the world, from EUR 1.6 billion in the first half of 2015 to EUR 3.1 billion in the first half of 2016. Around EUR 350 million was paid out in the first half of 2016 for projects relating to crises and refugees.

As of 30 June 2016, **DEG** had committed a total of EUR 434 million for investments by private companies in developing countries and emerging economies (EUR 669 million). The volume of new commitments picked up in the second quarter following a modest start. Commitments amounting to EUR 159 million were entered into in the field of equity finance (EUR 154 million). DEG was able to agree commitments amounting to EUR 104 million (EUR 105 million) for investments of German companies.

The promotional business volume in the **Financial markets business sector** amounted to EUR 536 million in the first half of 2016. KfW invested around EUR 176 million in a total of seven securities to promote projects aimed at protecting the climate and environment for its green bond portfolio. Investments in securitisation transactions in the field of the capital market-oriented promotion of SMEs amounted to EUR 359 million during this period.

To **fund** its promotional business, KfW raised long-term funds on the international capital markets amounting to the equivalent of EUR 42.4 billion as of 30 June 2016. Around 39% of the funds were raised in euros, while around 47% was raised in US dollars and 14% in eleven other foreign currencies. KfW continues to anticipate a funding volume of EUR 70 billion to EUR 75 billion for the year as a whole.

Key figures of the income statement (EUR in millions)	1 Jan. 2016 - 30 June 2016	1 Jan. 2015 - 30 June 2015
Operating result before valuations (before promotional activity)	949	1,009
Promotional activity	104	181
Consolidated profit	779	1,152
Consolidated profit before IFRS-effects from hedging	969	1,083

Key figures of the statement of financial position (EUR in billions)	30 June 2016	31 Dec. 2015
Total assets	512.2	503.0
Equity	25.8	25.2
Volume of business	612.5	587.2

Key regulatory figures (in %)	30 June 2016	31 Dec. 2015
IRBA (analogously) ¹⁾		
(Core) tier 1 capital ratio	21.5%	18.3%
Total capital ratio	21.5%	18.4%
CRSA ²⁾		
(Core) tier 1 capital ratio	14.7%	13.5%
Total capital ratio	14.7%	13.5%

1) The corresponding IRBA ratios were calculated voluntarily for internal purposes on the basis of the relevant legal provisions and taking the annual/quarterly results into consideration. KfW no longer discloses any Tier 2 capital in its equity, as a result of which the (core) Tier 1 capital ratio and the total capital ratio as of 30 June 2016 are the same.

²⁾ The stated CRSA ratios correspond to that reported to the banking supervisory authorities and take no account of the quarterly results. KfW no longer discloses any Tier 2 capital in its equity, as a result of which the (core) Tier 1 capital ratio and the total capital ratio as of 30 June 2016 are the same.

Service:

An overview of the promotional figures in table form is available for download at

www.kfw.de/geschaeftszahlen.