Q1 2016:
Demand for KfW promotion more subdued

- **Slight drop in total funding commitments to EUR 15.6 billion**
- **Increase in domestic promotional business volume to EUR 12.2 billion**
- **Strong demand for promotional housing programmes**
- **KfW IPEX-Bank back to normality at EUR 2.5 billion, after exceptional year in 2015**
- **Consolidated profit of EUR 246 million**

KfW Group made funding commitments totalling EUR 15.6 billion in the first three months of 2016 with its promotional activity (same period in previous year: EUR 17.4 billion, -10%). The **domestic promotional business** reached a commitment volume of EUR 12.2 billion in the first quarter (EUR 9.8 billion, +25%) and performed much better compared to the weak first quarter in the previous year. This increase was driven in particular by strong demand for real estate financing, but also corporate investments in energy efficiency projects. The commitment volume in KfW's **international financing** at EUR 3.3 billion (EUR 7.6 billion, -56%) fell short of the previous year, as expected after the exceptional year of 2015 when non-recurring effects resulted in very high commitments of KfW IPEX-Bank already in the first quarter. In Q1 2016, commitments of KfW IPEX-Bank were back to normality at EUR 2.53 billion (EUR 6.75 billion, -63%). DEG closed the first quarter with EUR 0.15 billion (EUR 0.32 billion, -55 %), while the KfW Development Bank business area contributed positively to the Q1 figure with EUR 0.67 billion (EUR 0.54 billion, +25%).

"As expected, demand for KfW promotion was somewhat more subdued in the first quarter of 2016. The persistently strong demand for energy efficiency measures in housing construction and for commercial environmental financing is a positive trend though. This is a good sign for the

German economy and a key factor in the energy transition," said Dr Ulrich Schröder, Chief Executive Officer of KfW.

The earnings position contracted in the first quarter of 2016, as anticipated as well, with a **consolidated profit of EUR 246 million** (EUR 417 million). The purely IFRS-related effects from the valuation of derivatives used as collateral understate the earnings position only marginally by EUR 17 million. The **consolidated profit before IFRS effects from hedging**, which is relevant from a KfW management perspective, thus came in at EUR 262 million, well below the previous year's figure (EUR 694 million).

"KfW's earnings development in the first quarter of 2016 returned to normal again, following the non-recurring effects that shaped the previous year. In annual terms, too, we expect to see a contraction in earnings compared to 2015 as a whole," revealed Dr Schröder.

The **operating result before valuation** (and before promotional activity) was EUR 419 million (EUR 515 million). Net interest income (before promotional activity) amounting to EUR 631 million (EUR 713 million) continues to be the main source of income.

Promotional activity – mainly interest rate reductions for new business **–** totalled EUR 56 million, slightly higher than the previous year (EUR 48 million) despite the still low rate reduction margin in the current interest rate environment.

Risk provisions in the lending business pulled earnings down by EUR 78 million (EUR 4 million). The **private equity and securities portfolio** of the group had a negative effect on earnings overall amounting to EUR 43 million (EUR +138 million). This development is primarily attributable to DEG's private equity result that was affected by exchange rates.

Total assets came in lower than at 31 December 2015 (EUR 503.0 billion) registering a figure of EUR 498.9 billion. This development is primarily due to currency-related fair value changes in connection with hedging transactions.

The **group’s regulatory capital ratios** have increased compared to 31 December 2015. As of 31 March 2016 the total capital ratio under the IRBA sits at 21.2% (31 December 2015: 18.4%) while the Tier 1 ratio is 21.0% (31 December 2015: 18.3%). 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 authority in accordance with the credit risk standardised approach (CRSA), based on which the total capital ratio as of 31 March 2016 is 15.4% (31 December 2015: 13.5%) and the Tier 1 ratio is 15.3% (31 December 2015: 13.5%). The increase can be attributed to improvements in risk measurement methodology as well as to exchange rate and business developments in the first quarter.

Details on the business sectors' promotional results

The promotional business volume in the **Mittelstandsbank** business sector totalled EUR 4.2 billion as of 31 March 2016 (EUR 3.7 billion). In spite of the somewhat weaker business climate in the corporate sector, the promotional business volume developed soundly compared to the same quarter in the previous year. Commercial environmental financing was a particular factor in this, while loan demand for general corporate finance was rather hesitant.

The priority area of **business start-ups and general corporate finance** fell just short of the previous year's level with commitments of EUR 1.9 billion (EUR 2.1 billion). Start-up financing reached EUR 0.9 billion and general corporate finance recorded EUR 1.0 billion (EUR 0.7 billion and EUR 1.4 billion).

Commitments in the field of **innovation** came in at EUR 0.2 billion (EUR 0.1 billion). What is more, the new **participation strategy** launched last year was fully implemented. In March 2016, KfW and the Federal Ministry for Economic Affairs and Energy started the external co-investment fund coparion. As the second pillar of the new participation strategy alongside ERP venture capital fund investments, in the coming years and together with private lead investors the fund is to participate directly in innovative start-ups and young technology firms. With a volume of EUR 225 million, coparion is the largest VC fund in Germany.

With commitments of EUR 2.1 billion (EUR 1.5 billion), the **environment** priority sector achieved strong growth. Commitments for renewable energies amounted to EUR 0.9 billion (EUR 0.7 billion). It is particularly pleasing how loan demand developed in the energy efficiency programme, restructured in 2015, supporting investments by companies in sophisticated energy efficiency projects. The level from the previous year was easily surpassed with a figure of EUR 1.1 billion (EUR 0.6 billion).

The **Kommunalbank and Privatkundenbank/Kreditinstitute** business sector made a very successful start to 2016 with new business of EUR 8.0 billion (EUR 6.1 billion). Practically every single priority area contributed to this growth compared to the previous year.

The priority area of **housing** reached a new high with a commitment volume of EUR 4.5 billion (EUR 3.4 billion). The still robust construction activity resulted in an increase in all promotional housing programmes. Changed conditions in the energy-efficient construction programme had some anticipatoryeffects, too.

In **infrastructure financing** the promotional business volume of EUR 1.4 billion (EUR 0.8 billion) brought about a powerful increase compared to the previous year. This is particularly attributable to the "Refugee Accommodation" special facility, through which KfW provided interest-free loans to municipalities. Likewise there was strong demand for basic municipal promotion as well as energy efficiency funding for public buildings.

The previous year's level was maintained in the priority area of **education and social development**, with a commitment volume of EUR 0.6 billion (EUR 0.6 billion). Solid development was noted in the **general funding** for promotional institutions of the federal states and the **individual financing of banks**, amounting to EUR 0.9 billion (EUR 0.7 billion) and EUR 0.6 billion (EUR 0.5 billion) respectively.

In the **Export and project finance business sector**, for which KfW IPEX-Bank is responsible, new commitments added up to EUR 2.5 billion.

This means the commitment volume is back to the normal levels of previous years (2015: EUR 6.8 billion, 2014: EUR 3.3 billion, 2013: EUR 2.7 billion) after the exceptional year of 2015, when non-recurring effects resulted in high commitments in the first quarter. Financial institutions and trade finance constituted another priority area amounting to EUR 0.8 billion. The encouraging start to the year was equally helped by Power, Renewables and Water as well as Aviation and Rail (both EUR 0.4 billion), a period otherwise shaped by difficult market conditions in many sectors.

Commitments in the **Promotion of developing and transition countries business sector** totalled EUR 820 million (EUR 863 billion). The **KfW Development Bank business area** raised its commitment volume by more than 25% at the end of the first quarter of 2016 compared to the same period of the previous year. The total commitment volume for programmes in developing and emerging countries stood at EUR 674 million (EUR 539 million). Just under half of this amount headed to Asia, and more than a third to Africa. On the whole, 54% of the projects are directed at climate and environmental protection. **DEG** will be in demand again in 2016 as a development financier, but it will also be confronted with challenging market conditions. After a subdued start with new commitments totalling EUR 146 million in the first quarter (EUR 324 million), financing for Asia amounted to EUR 86 million (EUR 62 million). At EUR 39 million more than a quarter of the new commitments were for investments by German companies (EUR 72 million). In terms of sectors, especially the commitments for the agri-food economy developed positively at EUR 47 million.

Investments totalling EUR 108 million were made in the **capital markets business sector** in the first quarter of 2016. For the green bond portfolio KfW invested roughly EUR 33 million in a security to promote climate and environmental protection projects. In the field of capital market-based SME promotion, investments in securitisation transactions during this period totalled EUR 75 million.

To **fund** its promotional business, KfW raised long-term funds in ten different currencies on the international capital markets amounting to the equivalent of EUR 22.2 billion as of 31 March 2016. Roughly 40% of the borrowings were in euros, and the remaining 60% was in foreign currencies. For the year as a whole, KfW is expecting a funding volume of EUR 70-75 billion. A review of this estimate will take place at the end of the second quarter as scheduled, based on current business developments.

Key figures of the income statement (EUR in millions)	**1 Jan. 2016 - 31 Mar. 2016**	**1 Jan. 2015 - 31 Mar. 2015**
Operating result before valuation (before promotional activity)	419	515
Promotional activity	56	48
Consolidated profit	246	417
Consolidated profit before IFRS-effects from hedging	262	694

Key figures of the statement of financial position (EUR in billions)	**31 Mar. 2016**	**31 Dec. 2015**
Total assets	498.9	503.0
Equity	25.3	25.2
Volume of business	596.5	587.2

Key regulatory figures (in %)	**31 Mar. 2016**	**31 Dec. 2015**
IRBA (analagously) [1)]		
(Core) tier 1 capital ratio	21.0%	18.3%
Total capital ratio	21.2%	18.4%
CRSA [2)]		
(Core) tier 1 capital ratio	15.3%	13.5%
Total capital ratio	15.4%	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.
2) The CRSA ratio as of 31 March 2016 corresponds to that reported to the banking supervisory authorities and takes no account of the quarterly result.

Service:

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