

First quarter of 2017: demand for KfW promotion still strong in Germany

- **Total promotional business volume of EUR 18.2 billion (+16%)**
- **Domestic promotion up to EUR 14.6 billion (+20%)**
- **Strong demand for SME and housing construction finance continues**
- **New commitments at KfW Development Bank rise to EUR 1.1 billion (+62%)**
- **Consolidated profit of EUR 421 million**

In the first three months of 2017, the promotional business of KfW Group reached a total volume of EUR 18.2 billion (prior-year period: EUR 15.6 billion, +16%). **Domestic promotion** underwent very brisk development in the first quarter, with commitments rising to EUR 14.6 billion (EUR 12.2 billion, +20%). This result was boosted by demand from companies as well as private customers' persistently strong interest in promotional loans. At EUR 3.3 billion (EUR 3.3 billion), the business volume of **international financing** by KfW remained at the prior-year level. The commitments of KfW IPEX-Bank fell short of the previous year at EUR 2.1 billion (EUR 2.5 billion). Due to the closing of two large-volume financing transactions KfW Development Bank recorded a significant increase in its commitments, rising by +62% to EUR 1.1 billion (EUR 674 million). DEG enjoyed a good first quarter as well, posting a figure of EUR 155 million (EUR 146 million).

"The 2017 promotional year has got off to a successful start. The vibrant economic activity in Germany has meant that demand for KfW promotion from companies and individuals has remained high for the time being. This bodes well for 2017", said Dr Günther Bräunig, Member of the Executive Board of KfW Group.

The earnings position improved in the first quarter of 2017 with a consolidated profit of EUR **421 million** (EUR 246 million), benefiting in particular from the better valuation result. The purely IFRS-related effects from the valuation of derivatives

used for hedging purposes understate the earnings position only marginally by EUR 14 million. At EUR 434 million, consolidated profit before IFRS effects from hedging, which is relevant for the management of KfW, came in much higher than in the same period of 2016 (EUR 262 million).

"KfW's earnings trend was encouraging in the first quarter of 2017 and still exceeds our expectations thanks to the good valuation result. As the year progresses we expect to see a normalisation of risk provisions for lending, among other things", said Dr Bräunig.

The operating result before valuations (before promotional activity) totalled EUR 500 million (EUR 419 million). Net interest income (before promotional activity) amounting to EUR 709 million (EUR 631 million) continues to be the main source of income.

Promotional activity – mainly interest rate reductions for new business – totalled EUR 63 million, slightly higher than the previous year (EUR 56 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 2 million (by EUR 78 million in the previous year). The **private equity and securities portfolio** of the group had a positive effect overall on earnings amounting to EUR 10 million (EUR -43 million).

Total assets came in lower than at 31 December 2016 (EUR 507 billion), registering a figure of EUR 498.5 billion. This was mainly due to fair value changes in connection with hedging transactions.

The group's **regulatory equity ratios** are still at a good level. The total capital ratio amounts to 21.9% when applying the IRBA analogously (31 December 2016: 22.3%).

KfW has been subject to the regulatory reporting requirements for capital ratios since the start of the year 2016. Until regulatory approval is received for the IRBA, likely around mid-2017, KfW reports to the banking supervisory authorities in accordance with the credit risk standardised approach (CRSA), based on which the total capital ratio as of 31 March 2017 is 16.1% (31 December 2016: 15.9%, with due consideration of the 2016 annual profit).

Details on the business sectors' promotional activities

With a promotional business volume of EUR 5.6 billion (EUR 4.2 billion) the **Mittelstandsbank** (SME Bank) enjoyed a very successful start to the new year, registering significant growth compared to the same quarter in 2016. The positive business outlook of German companies, in spite of the many global uncertainties, coupled with the continuously good funding conditions are contributing to the lively demand for commercial promotional loans.

The priority area of **business start-ups and general corporate finance** easily exceeded the previous year's level with commitments of EUR 2.7 billion (EUR 1.9 billion). This development was largely driven by the strong demand for general corporate finance (EUR 1.7 billion, previous year: EUR 1.0 billion). What is also pleasing is the stable development in start-up finance with a volume of EUR 1.1 billion (EUR 0.9 billion), in spite of the general decline in start-up activity in Germany.

Promotion in the field of **innovation** totalled EUR 0.1 billion (EUR 0.2 billion). At the start of the year, the ERP Venture Capital Fund Investment programme was launched for investments in venture debt funds. Additionally, KfW is to subscribe to the High Tech Gründer Fonds III in the course of the second quarter.

With commitments of EUR 2.8 billion (EUR 2.1 billion) the **environment** priority sector posted a very positive result. Demand in the renewable energies segment was particularly pleasing, with commitments of EUR 1.4 billion (EUR 0.9 billion). In

the promotional programme for commercial energy efficiency projects, even the impressive figure from the previous year was beaten in Q1 2017 at EUR 1.4 billion (EUR 1.1 billion).

The promotional business volume of EUR 9.0 billion (EUR 8.0 billion) meant that **Kommunal- und Privatkundenbank / Kreditinstitute** (Municipal and Private Client Bank / Credit Institutions) also enjoyed a successful start to the new financial year, registering marked growth compared to the previous year.

The priority area of **housing** reached a new high here with a commitment volume of EUR 6.1 billion (EUR 4.5 billion). The persistently strong construction sector and the still favourable interest-rate climate helped the energy-efficient construction and refurbishment programmes, on the market for ten years now, to record a promotional business volume of EUR 4.7 billion, well in excess of the previous year's first quarter (EUR 3.1 billion).

With a figure of EUR 1.1 billion, **infrastructure financing** made a stable contribution to promotional business. The higher figure registered in the previous year (EUR 1.4 billion) was influenced by the special "refugee accommodation" facility, which has since expired. In the first quarter of 2017 there was higher demand for the programmes related to energy supply for neighbourhoods and energy-efficient construction and refurbishment for municipal companies.

In the area of **education and social development** the commitment volume of EUR 0.5 billion was roughly the same as the previous year (EUR 0.6 billion). New business in the **general funding** for promotional institutions of the federal states rose slightly to EUR 1.1 billion (EUR 0.9 billion).

For the priority area of **individual financing of banks** the commitment volume in the first quarter totalled EUR 0.1 billion (EUR 0.6 billion), which although is markedly down on the previous year, there are some large contracts ahead in the second quarter.

In the **Export and project finance business sector**, for which **KfW IPEX-Bank** is responsible, new business commitments totalled EUR 2.1 billion, less than the same period in 2016 (EUR 2.5 billion). The Industries and Services segment is a priority here with EUR 0.6 billion (EUR 0.3 billion). Aviation and Rail as well as Financial Institutions and Trade Finance also got the year off to a start with EUR 0.4 billion each (prior-year period: Aviation and Rail EUR 0.4 billion, Financial Institutions and Trade Finance EUR 0.8 billion).

The commitment volume for the Promotion of developing countries and emerging economies business sector totalled EUR 1.2 billion (EUR 0.8 billion). The **KfW Development Bank business area** raised its commitment volume markedly by more than 62% at the end of the first quarter of 2017 compared to the same period of the previous year. The total commitment volume for programmes in developing and emerging countries stood at EUR 1.1 billion (EUR 0.7 billion). Half of all the projects benefited climate protection and the environment. The higher overall volume compared to the previous year is mostly explained by two large projects of more than EUR 200 million each in India, regarding energy efficiency and social housing. **DEG's** new business went well in the first quarter of 2017, amounting to EUR 155 million (EUR 146 million). From a regional perspective, most of the financing commitments went to Asia again, at EUR 94 million (EUR 86 million). DEG provided around EUR 58 million for banks specialised in financing SMEs in developing countries (EUR 32 million). In terms of infrastructure, for example, DEG finances investments in renewable energies, logistics and telecommunications. The new commitments in this context totalled EUR 54 million (EUR 16 million).

Investments totalling roughly EUR 270 million (EUR 108 million) were made in the **financial markets business sector** in the first quarter of 2017. Some EUR 170 million of this (EUR 75 million) pertained to investments in securitisation transactions in the field of capital market-oriented support for SMEs. For the green bond portfolio KfW invested roughly EUR 100 million (EUR 33 million) in four securities to promote climate and environmental protection projects.

The volume of **long-term funding** in the global capital markets totalled the equivalent of EUR 27.4 billion in the first quarter of 2017 (EUR 22.2 billion). After about two years, the euro (52%) replaced the US dollar again (34%) as the currency with the highest share in total borrowings. The third-strongest currency in the first three months of the year was the same as in 2016, the British pound (8%). For the year as a whole KfW is expecting a funding volume of roughly EUR 75 billion. This estimate will be revised as planned based on current market developments at the end of the first six months.

Key figures of the income statement (EUR in millions)	01.01.2017 - 31.03.2017	01.01.2016 - 31.03.2016
Operating result before valuation (before promotional activity)	500	419
Promotional activity	63	56
Consolidated profit	421	246
Consolidated profit before IFRS-effects from hedging	434	262

Key figures of the statement of financial position (EUR in billions)	31.03.2016	31.12.2016
Total assets	498.5	507.0
Equity	27.5	27.1
Volume of business	602.6	609.2

	31.03.2017	31.12.2016
IRBA (analogously) ¹⁾		
(Core) tier 1 capital ratio	21.9 %	22.3 %
Total capital ratio	21.9 %	22.3 %

CRSA ²⁾		
(Core) tier 1 capital ratio	16.1 %	15.9 %
Total capital ratio	16.1 %	15.9 %

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 has no tier 2 capital in its equity, meaning that the (core) tier 1 capital ratio and the total capital ratio are the same.

²⁾ The CRSA ratios as of 31 December 2016 include the annual result for 2016. The CRSA ratios as of 31 March 2017 take no account of quarterly results. KfW has no tier 2 capital in its equity, meaning that the (core) tier 1 capital ratio and the total capital ratio are the same.

Service:

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