

»» First quarter of 2015: strong demand for KfW promotion



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Total commitment volume of EUR 17.4 billion (+ 26 %)

International financing doubles to EUR 7.6 billion

Domestic promotion stable at high level, in spite of difficult overall conditions

Consolidated profit of EUR 417 million

Total assets roughly EUR 530 billion

KfW Group reached a total commitment volume in Q1 2015 of EUR 17.4 billion (+ 26 %) (prior-year period: EUR 13.9 billion). The volume pledged for international business increased to around EUR 7.6 billion (+ 98 %) (EUR 3.8 billion). The main contributors here were the business sector Export and project finance with EUR 6.8 billion (+ 105 %), and the KfW Development Bank business area with EUR 0.5 billion (+ 43 %). Despite the challenging conditions on the market, KfW's domestic promotional business achieved a high, stable volume with new commitments amounting to EUR 9.8 billion (EUR 10.0 billion).

“Demand for KfW promotion developed very well during the first quarter of 2015. We continue to fulfil our role as a subsidiary promotional bank”, said Dr Ulrich Schröder, Chief Executive Officer of KfW Group. “The current trend for a shift in our commitments from Germany to

abroad persisted in the first three months. This means we are continuing to support the German economy, strong in exports.”

The earnings position evolved well in the first quarter of 2015 with a **consolidated profit of EUR 417 million** (EUR 391 million). This development, which exceeded expectations, was primarily driven by the excellent valuation result.

“KfW's earnings development in the first quarter of 2015 was pleasing and marked by extraordinary effects. Owing to the low risk provision requirement for lending business observed, as usually, in the first quarter, it is not possible to extrapolate the annual result from the quarterly result”, explained Dr Schröder.

The **operating result before valuation** (and before promotional activity) totaled EUR 515 million (EUR 507 million). Net interest income (before promotional activity) amounting to EUR 713 million (EUR 682 million) is still the main source of income for KfW based on its persistently good funding conditions.

Promotional activity – mainly interest rate reductions for new business in 2015 – was significantly lower (EUR 48 million) than the previous year (EUR 99 million) due to the low interest levels.

Risk provisions in the lending business once again were only a very moderate drag on the earnings position, totaling EUR 4 million (EUR 37 million).

The still pleasing result from the **private equity and securities portfolio** amounting to EUR 138 million (EUR 42 million) is attributable especially to DEG's private equity business that was positively influenced by exchange rates.

The purely IFRS-induced effects of hedging relationships, had a major adverse effect on the result at EUR 277 million, which was largely caused by the fair value measurement of own issues due to central banks' measures designed to boost market liquidity.

Total assets came in much higher than at 31 December 2014 (EUR 489.1 billion) registering a figure of EUR 530.4 billion. This development is primarily due to currency-related changes in market value connected to hedges. The regulatory capital ratios of the Group decreased compared to 31 December 2014. As of 31 March 2015 the total capital ratio sits at 13.9% (31 December 2014: 15.1%) with due consideration of the consolidated result, while the Tier 1 ratio is 13.8% (31 December 2014: 14.1 %). Impacts from the appreciation of the US dollar and new business in the Export and project finance business sector are the main reason for the decline.

Results of KfW's promotional activities by business sector

The promotional business volume in the **Kommunalbank and Privatkundenbank/ Kreditinstitute business sector** amounted to EUR 6.1 billion – a significant rise

compared to the previous year's quarter (EUR 4.9 billion). Growth was registered in almost every promotional area; a commitment volume of EUR 3.4 billion in **housing**, the largest priority area by volume, almost managed to match the excellent result of the prior-year quarter (EUR 3.5 billion). The strong demand in the KfW programmes for energy-efficient construction and home ownership, supported by the German Federal Government, reflect the high level of new construction activity in Germany.

In the promotional area of **infrastructure financing** the commitment volume totaled EUR 0.8 billion – an increase compared to the previous year (EUR 0.6 billion). Both standard programmes for municipalities (IKK) as well as municipal and social enterprises (IKU) generated strong demand, as did the programme for efficient municipal energy supplies. At EUR 639 million, the commitments for **education finance** are just above the previous year's level (EUR 590 million).

KfW's activities in the field of general funding for promotional institutions of the federal states evolved very well in the first quarter at EUR 735 million (EUR 213 million) as did the **individual financing of banks** with a figure of EUR 524 million (EUR 15 million).

The volume of new business in the **Mittelstandsbank business sector** amounted to commitments of EUR 3.7 billion (EUR 5.1 billion) as of 31 March. The expectation of weaker demand for loans is largely caused by the historically low interest rates. What is more, SMEs are in many cases turning first to their own funds when it comes to financing their investments. Against the background of the persistently low interest rates, conditions for end-customers were further improved as of 1 April 2015 with the reduction of end-borrower rates. It remains to be seen how this will affect demand, but developments were positive in April.

The priority area of **business start-ups and general corporate finance** generated a commitment volume of EUR 2.1 billion (EUR 2.7 billion). The decline in demand was primarily observed with general corporate finance. At EUR 0.7 billion, commitments with start-up financing remained largely at the same level as the previous year.

For **environmental and climate protection financing**, a total of EUR 1.5 billion was committed (EUR 2.1 billion). Compared to the previous year's first quarter, commitments dropped for investments in the areas of renewable energy and energy efficiency. Higher promotional business volumes were achieved for environmental projects on the other hand.

In the **Export and project finance business sector, for which KfW IPEX-Bank** is responsible, new commitments added up to EUR 6.8 billion. This is about double the commitment volume in the prior-year period (EUR 3.3 billion) and is attributable primarily to financings carried out together with other banks. The sector department **Aviation and Rail** accounts for the largest share overall with EUR 1.4 billion (EUR 0.4 billion), mainly through a number of financings carried over from the 2014 to the 2015 financial year. **Industries and Services** are another focal area at EUR 1.1 billion (EUR 0.3 billion), with some large-volume transactions particularly in the field of telecommunications/infrastructure. The **Maritime Industries** sector department is traditionally strong at EUR 0.9 billion (EUR 1.1 billion). Another large financing transaction in the mid-triple-digit-million range is the **NordLink undersea cable project**, on which the bank had been working for years and which was closed in the first quarter.

In the first quarter of 2015, the **Promotion of developing and transition countries business sector** recorded

commitments adding up to EUR 863 million (EUR 539 million). The **KfW Development Bank** business area committed EUR 539 million (EUR 378 million) on behalf of the German Federal Government. The first quarter was very promising for **DEG**: new business was expanded substantially with commitments amounting to EUR 324 million (EUR 161 million). The increase in financing for Africa, a strategic focus of **DEG**, was especially pleasing, coming in at EUR 125 million (EUR 33 million) along with EUR 90 million (EUR 19 million) for Latin America. Commitments for companies in the industrial sector underwent dynamic development, too, at roughly EUR 102 million (EUR 40 million). **DEG** pledged EUR 72 million (EUR 49 million) for investments of German companies in developing countries.

To **fund** its promotional business, KfW has raised long-term funds on the international capital markets as of 31 March 2015 amounting to the equivalent of EUR 12.6 billion in 12 different currencies (as of 30 April 2015: EUR 22.5 billion). For the year as a whole, KfW is expecting a funding volume of EUR 55–60 billion. A planned review of this estimate will take place at the end of the second quarter based on current business developments.

Key financial figures (IFRS)

Key figures of the income statement (EUR in millions)	1 Jan 2015 – 31 March 2015	1 Jan 2014 – 31 March 2014
Operating result before valuation (before promotional activity)	515	507
Promotional activity	48	99
Consolidated profit	417	391
Consolidated profit before IFRS effects from hedging	694	402

Key figures of the statement of financial position (EUR in billions)	31 March 2015	31 December 2014
Total assets	530.4	489.1
Equity	23.3	21.6
Volume of business	614.7	572.5

Key regulatory figures (in %) ¹⁾	31 March 2015	31 December 2014
Tier 1 ratio	13.8	14.1
Total capital ratio	13.9	15.1

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

Consolidated business of KfW Group

(EUR in billions)

	2014	1 – 3/2014	1 – 3/2015
KfW Group (consolidated) ¹⁾	74.1	13.9	17.4
<i>Domestic promotional business</i>	<i>47.6</i>	<i>10.0</i>	<i>9.8</i>
<i>Business sector Mittelstandsbank</i>	<i>19.9</i>	<i>5.1</i>	<i>3.7</i>
<i>Business sector Kommunal- und Privatkundenbank/Kreditinstitute</i>	<i>27.7</i>	<i>4.9</i>	<i>6.1</i>
<i>Business sector Capital markets</i>	<i>1.2</i>	<i>0.1</i>	<i>0.0</i>
<i>International business</i>	<i>25.5</i>	<i>3.8</i>	<i>7.6</i>
<i>of which:</i>			
<i>Business sector Export and project finance (KfW IPEX-Bank)</i>	<i>16.6</i>	<i>3.3</i>	<i>6.8</i>
<i>Business area KfW Development Bank</i>	<i>7.4</i>	<i>0.4</i>	<i>0.5</i>
<i>DEG</i>	<i>1.5</i>	<i>0.2</i>	<i>0.3</i>

¹⁾ Adjustment for commitments of Export and project finance with refinancing from KfW programme loans (03/2014: EUR 73 million, 2014: EUR 153 million, 03/2015: EUR 0 million).

Service: A table overview of the business and commitment figures is available for download at www.kfw.de/geschaeftszahlen.