

Third quarter of 2016: strong demand for KfW promotion in Germany

- **Promotional business volume strong again at EUR 54.6 billion**
- **Domestic promotion up 6% on last year**
- **International financing at EUR 13.2 billion following exceptional year in 2015**
- **Consolidated profit higher than expected at EUR 1.3 billion**
- **Progress on digitalisation**

In the first nine months of 2016 the promotional business of KfW Group reached a total volume of EUR 54.6 billion (prior-year period: EUR 59.5 billion, -8.2%). In this period the volume of commitments in **domestic promotion** was high at EUR 40.8 billion (EUR 38.6 billion, +6%), exceeding the figure for the previous year by more than EUR 2 billion. This increase was the result of strong demand for energy-efficient housing in particular as well as corporate investment in energy-efficiency projects. The volume of KfW's **international financing** business declined to EUR 13.2 billion (EUR 20.3 billion, -35%). This decrease is mainly attributable to the development of new commitments at KfW IPEX-Bank, which fell 47.1% from EUR 16.3 billion to EUR 8.6 billion; in the previous year, KfW IPEX-Bank achieved an extraordinary high volume of commitments due to a cumulation of exceptionally large transactions and market developments. New commitments at DEG amounted to EUR 0.7 billion as of the third quarter (EUR 0.8 billion, -9.8%). KfW Development Bank, on the other hand, made a positive contribution with EUR 3.8 billion (EUR 3.1 billion, +20.8%).

“The strong demand for KfW promotion reflects the robustness of Germany's economy. This is good news. Nevertheless, the German economy will have to do even more to tackle the challenges of digitalisation,” said Dr Ulrich Schröder, CEO of KfW, while stressing that this also applies to a promotional bank like KfW.

By linking the first commercial KfW products to the new promotional funding platform “**Bankdurchleitung Online 2.0**”, KfW's SME Bank is placing access to promotional loans and the cooperation with financing partners on a new, digital footing. As is already the case for housing sector products, this means that promotion commitments for certain commercial products can now also be issued online within the space of a few seconds. Digital promotional loan commitments are initially being implemented by Deutsche Bank and Postbank for the “KfW Entrepreneur Loan” and the “ERP Regional Promotion Programme”. Other commercial products and financing partners are to be added in 2017.

In June 2016 KfW also launched the grant portal that allows grants to be applied for quickly and easily over the Internet. Private constructors can now submit their grant applications to KfW online for KfW's product “Energy-efficient Refurbishment - Investment Grant”, and they receive a commitment within the space of just a few moments.

In September 2016 KfW also opened an innovation lab at its new premises in Frankfurt. The lab is where digital projects from all divisions of the bank are supported under the management of a Chief Digital Officer.

With **consolidated profit of EUR 1,348 million** (EUR 1,730 million), earnings decreased in comparison to the previous year, as anticipated, but still exceeded expectations. This development can above all be attributed to the valuation result, which was boosted by positive non-recurring effects, as well as a reduction in charges from the bank's promotional activity due to the low interest rates prevailing at present.

“KfW's results continued to improve in the third quarter. 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 above-average,” said Dr Schröder.

The **operating result before valuation** (before promotional activity) was EUR 1,458 million (EUR 1,510 million). Net interest income (before promotional activity) amounting to EUR 2,080 million (down from EUR 2,106 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 136 million, much lower than the previous year (EUR 243 million) on account of what is still a low rate reduction margin in the current interest rate environment.

Risk provisions in the lending business were only a moderate drag on the earnings position, totalling EUR 77 million (+ EUR 37 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 non-recurring effects in the form of amounts received for receivables that had already been written off.

The **result from the private equity and securities portfolio** amounting to EUR 42 million (down from EUR 165 million) is primarily attributable to DEG's private equity result.

The **purely IFRS-related effects** from the valuation of derivatives used exclusively for hedging purposes in closed risk positions also reduced the earnings position by EUR 43 million (+ EUR 187 million).

Total assets came in slightly lower than at 31 December 2015 (EUR 503.0 billion), registering a figure of EUR 497.2 billion.

The group's **regulatory equity ratios** were stable in the third quarter. The total capital ratio amounts to 21.7% when applying the IRBA analogously (30 June 2016: 21.5%). 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 as of 30 September 2016 is 14.7% (30 June 2016: 14.7%).

Details on the business sectors' promotional activities

The new business of **Mittelstandsbank** (*SME Bank*) at EUR 15.3 billion was on a par with the previous year (EUR 15.4 billion). This shows that demand for commercial promotional

loans remains encouragingly stable despite the fact that the framework conditions are still challenging (global sources of uncertainty such as the ramifications of Brexit, modest projections for the European economy, slowdown in export growth).

At EUR 7.8 billion (EUR 6.9 billion), the volume of commitments in the priority area of **environmental and energy finance** was up significantly on the prior year. This was mainly due to KfW's energy efficiency programme, which was restructured in 2015 and contributed EUR 3.9 billion (EUR 2.7 billion). The promotion of renewable energies fell slightly to EUR 3.1 billion (EUR 3.4 billion).

The volume of commitments in the field of **start-ups and general corporate finance** (EUR 7.1 billion) was down in comparison with the previous year (EUR 8.1 billion). This is due to the lower demand for the KfW Entrepreneur Loan (EUR 4.1 billion, prior-year period: EUR 5.0 billion). The volume of start-up finance remains positive at EUR 2.5 billion, putting it within reach of the already very strong figure for the previous year (EUR 2.7 billion).

Promotion in the field of **innovation** held steady in comparison to the previous year (EUR 0.4 billion, as in the prior-year period).

The volume of promotion committed in the **Kommunal- und Privatkundenbank / Kreditinstitute** (*Municipal and private client bank / credit institutions*) **business sector** in the third quarter of 2016 came to EUR 25.4 billion (EUR 23.2 billion). Strong growth was recorded in the energy-efficient construction and refurbishment programmes and in individual financing of banks.

Boosted by the robust construction sector, the **housing** area set a new record with new commitments totalling more than EUR 15.2 billion (EUR 12.9 billion). The strongest impulses in this respect came from the energy-efficient construction and refurbishment programmes, which promote investment in the construction of energy-efficient new buildings and rehabilitation of existing properties.

The volume of commitments in **infrastructure finance** held steady at EUR 3.3 billion (EUR 3.4 billion). This includes EUR 480 million for the special "refugee accommodation" facility, which KfW used to provide again interest-free loans to municipalities at the start of this year.

Demand in the **education** priority area fell slightly, from EUR 1.9 billion to EUR 1.6 billion.

With a commitment volume of more than EUR 1.8 billion (EUR 0.9 billion), the **individual financing of banks** priority area also made a significant contribution to the very successful result. Substantial growth was achieved in the programmes to support lease investment finance using global loans as well as in the funding of export credit with federal backing.

The volume of commitments in the field of **general funding for promotional institutions of the federal states**, on the other hand, fell from EUR 4.1 billion to EUR 3.5 billion due to preemptive effects in the previous year.

In the **Export and project finance business sector**, for which **KfW IPEX-Bank** is responsible, new business commitments totalled EUR 8.6 billion (EUR 16.3 billion). As already seen in the two preceding quarters, this means that the volume of commitments remains well below the level registered in the exceptional year of 2015 in which a cumulation of exceptionally large transactions and market developments caused the volume of new business to soar. With a number of larger finance arrangements anticipated for the fourth quarter, the commitment volume is likely to be roughly on a par with previous years by the end of 2016. In detail, the Power, Renewables and Water sector department contributed EUR 2.1 billion (EUR 2.7 billion) to the volume of commitments in difficult market conditions, followed by Financial Institutions and Trade Finance with EUR 1.5 billion (EUR 1.6 billion) and Aviation and Rail with EUR 1.3 billion (EUR 2.4 billion).

Commitments in the **Promotion of developing countries and emerging economies business sector** totalled EUR 4.5 billion (EUR 4.0 billion). The **KfW Development Bank** business area increased its volume of commitments further in the third quarter of 2016 to an amount of EUR 3.8 billion (EUR 3.1 billion). Almost half of the commitments went to developing countries and emerging economies in Asia, with another quarter supporting programmes and projects in Africa and the Middle East. A total of 54% of commitments benefited the protection of the climate and environment. In a challenging market, **DEG** had committed EUR 736 million (EUR 816 million) to private-sector investment in developing countries and emerging economies as of 30 September 2016. For German companies, which are one of its strategic priorities, DEG committed an encouraging EUR 151 million (EUR 119 million). Financing for the agricultural and food sector more than doubled to EUR 103 million (EUR 45 million). EUR 282 million of new business stemmed from projects in Asia (EUR 257 million).

The volume of promotional business in the **Financial markets business sector** came to EUR 711 million as of 30 September 2016. Around 75% of this amount stemmed from investment in securitisation transactions in the field of capital market-oriented support for SMEs. Investment in connection with the green bond portfolio to promote climate and environmental protection projects accounted for about a quarter of the promotional business volume.

To **fund** its promotional business, KfW raised long-term funds on the international capital markets amounting to an equivalent of EUR 61.1 billion in the first nine months of the year. In addition to the two main currencies of euros and US dollars (which accounted for 38% and 46% of the total funding volume as of 30 September), bonds were issued in eleven other currencies, with the pound sterling accounting for the third-largest share (8% as of 30 September). KfW plans to raise funds totalling between EUR 70 and EUR 75 billion for the year as a whole.

Key figures of the income statement (EUR in millions)	1 Jan. 2016 - 30 Sept. 2016	1 Jan. 2015 - 30 Sept. 2015
Operating result before valuations (before promotional activity)	1,458	1,510
Promotional activity	136	243
Consolidated profit	1,348	1,730
Consolidated profit before IFRS-effects from hedging	1,391	1,544

Key figures of the statement of financial position (EUR in billions)	30 Sept. 2016	31 Dec. 2015
Total assets	497.2	503.0
Equity	26.3	25.2
Volume of business	595.6	587.2

Key regulatory figures (in %)	30 Sept. 2016	31 Dec. 2015
IRBA (analogously) ¹⁾		
(Core) tier 1 capital ratio	21.7%	18.3%
Total capital ratio	21.7%	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 September 2016 are the same.

²⁾ The stated CRSA ratios correspond to the figures reported to the banking supervisory authorities and take no account of the quarterly result. 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 September 2016 are the same.

Service:

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